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

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**FORM 10-Q**

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

**For the quarterly period ended June 30, 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**

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**Westar Energy, 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**

**71,488,497 Shares**

**(Class)**

**(Outstanding at August 6, 2002)**

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## 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 or re-regulation,
- 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 and (ii) the Kansas Corporation Commission’s order issued July 20, 2001 and related proceedings, with respect to the proposed separation of Westar Energy, Inc.’s electric utility businesses from Westar Industries, Inc.,
- the impact of changes and downturns in the energy industry and the market for trading wholesale electricity,
- the proposed sale of our interests in ONEOK, Inc.,
- political, legislative and regulatory developments,
- amendments or revisions to our current business and financial plans,
- 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 operations and financial results. 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 except as required by applicable laws or regulations.

[Table of Contents](#)**PART I. Financial Information****ITEM 1. FINANCIAL STATEMENTS**

**WESTAR ENERGY, INC.**  
**CONSOLIDATED BALANCE SHEETS**  
**(Dollars in Thousands)**  
**(Unaudited)**

	June 30, 2002	December 31, 2001
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 97,743	\$ 96,388
Restricted cash	134,433	15,495
Accounts receivable, net	101,899	96,824
Inventories and supplies	147,790	145,000
Energy trading contracts	86,262	71,421
Deferred tax assets	7,820	23,284
Prepaid expenses and other	64,595	54,514
	<u>640,542</u>	<u>502,926</u>
<b>PROPERTY, PLANT AND EQUIPMENT, NET</b>	<u>4,017,197</u>	<u>4,044,366</u>
<b>OTHER ASSETS:</b>		
Restricted cash	175,202	38,515
Investment in ONEOK	702,461	598,929
Customer accounts, net	454,782	813,733
Goodwill, net	298,861	879,926
Regulatory assets	393,293	358,025
Energy trading contracts	19,318	15,247
Other	243,035	233,927
	<u>2,286,952</u>	<u>2,938,302</u>
<b>ASSETS OF DISCONTINUED OPERATIONS</b>	<u>19,410</u>	<u>22,938</u>
<b>TOTAL ASSETS</b>	<u>\$6,964,101</u>	<u>\$7,508,532</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Current maturities of long-term debt	\$ 118,026	\$ 160,829
Short-term debt	8,768	222,300
Accounts payable	122,703	122,968
Accrued liabilities	244,073	216,017
Accrued income taxes	16,467	35,048
Deferred security revenues	47,353	47,891
Energy trading contracts	77,772	67,859
Other	24,295	24,570
	<u>659,457</u>	<u>897,482</u>
<b>LONG-TERM LIABILITIES:</b>		
Long-term debt, net	3,505,390	2,978,450
Western Resources obligated mandatorily redeemable preferred securities of subsidiary trusts holding solely company subordinated debentures	219,280	220,000
Deferred income taxes and investment tax credits	844,487	924,178
Minority interests	83,189	166,850
Deferred gain from sale-leaseback	168,552	174,466
Energy trading contracts	9,739	16,500
Other	325,010	285,181
	<u>5,155,647</u>	<u>4,765,625</u>
<b>LIABILITIES OF DISCONTINUED OPERATIONS</b>	<u>1,333</u>	<u>1,364</u>
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>SHAREHOLDERS' EQUITY:</b>		
Cumulative preferred stock, par value \$100 per share; authorized 600,000 shares; issued 248,576 shares; outstanding	21,450	23,936

214,503 shares and 239,364 shares, respectively		
Common stock, par value \$5 per share; authorized 150,000,000 shares; issued 91,888,770 shares and 86,205,417 shares, respectively	459,444	431,027
Paid-in capital	1,250,378	1,196,763
Unearned compensation	(13,066)	(21,920)
Loans to officers	(2,014)	(1,973)
Retained earnings (accumulated deficit)	(98,597)	606,502
Treasury stock, at cost, 20,493,341 and 15,097,987 shares, respectively	(455,976)	(364,901)
Accumulated other comprehensive loss, net	(13,955)	(25,373)
	<u>1,147,664</u>	<u>1,844,061</u>
<b>Total Shareholders' Equity</b>	<b>1,147,664</b>	<b>1,844,061</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$6,964,101</b>	<b>\$7,508,532</b>

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

**WESTAR ENERGY, INC.**  
**CONSOLIDATED STATEMENTS OF INCOME (LOSS)**  
**(Dollars in Thousands, Except Per Share Amounts)**  
**(Unaudited)**

	Three Months Ended June 30,	
	2002	2001
<b>SALES:</b>		
Energy	\$ 417,896	\$ 412,466
Monitored Services	87,230	108,360
<b>Total Sales</b>	<b>505,126</b>	<b>520,826</b>
<b>COST OF SALES:</b>		
Energy	178,247	198,146
Monitored Services	26,987	38,518
<b>Total Cost of Sales</b>	<b>205,234</b>	<b>236,664</b>
<b>GROSS PROFIT</b>	<b>299,892</b>	<b>284,162</b>
<b>OPERATING EXPENSES:</b>		
Operating and maintenance	97,628	88,496
Depreciation and amortization	67,536	102,234
Selling, general and administrative	78,194	83,106
Loss on dispositions of monitored services operations	—	17,979
<b>Total Operating Expenses</b>	<b>243,358</b>	<b>291,815</b>
<b>INCOME (LOSS) FROM OPERATIONS</b>	<b>56,534</b>	<b>(7,653)</b>
<b>OTHER INCOME (EXPENSE):</b>		
Investment earnings	14,824	342
Minority interests	(240)	4,451
Other	(1,372)	(2,832)
<b>Total Other Income</b>	<b>13,212</b>	<b>1,961</b>
<b>INTEREST EXPENSE:</b>		
Interest expense on long-term debt	58,441	53,595
Interest expense on short-term debt and other	10,587	11,027
<b>Total Interest Expense</b>	<b>69,028</b>	<b>64,622</b>
<b>EARNINGS (LOSSES) BEFORE INCOME TAXES</b>	<b>718</b>	<b>(70,314)</b>
Income tax benefit	(5,793)	(34,354)
<b>NET INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE EXTRAORDINARY GAIN</b>	<b>6,511</b>	<b>(35,960)</b>
Discontinued operations, net of tax of \$703 and \$1, respectively	(1,343)	(54)
Extraordinary gain, net of tax of \$4,362 and \$3,137, respectively	7,627	5,826
<b>NET INCOME (LOSS)</b>	<b>12,795</b>	<b>(30,188)</b>
<b>PREFERRED STOCK:</b>		
Gain on reacquired preferred stock	128	—
Preferred dividends	(231)	(282)
<b>Total change in preferred stock</b>	<b>(103)</b>	<b>(282)</b>
<b>EARNINGS (LOSSES) AVAILABLE FOR COMMON STOCK</b>	<b>\$ 12,692</b>	<b>\$ (30,470)</b>
Average common shares outstanding	71,645,655	70,409,093
<b>BASIC AND DILUTED EARNINGS PER AVERAGE COMMON SHARE OUTSTANDING:</b>		
Basic and diluted earnings (losses) available from continuing operations and before extraordinary gain	\$ 0.09	\$ (0.51)

Discontinued operations, net of tax	(0.02)	—
Extraordinary gain, net of tax	0.11	0.08
	<u>          </u>	<u>          </u>
Basic and diluted earnings (losses) available after extraordinary gain	\$ 0.18	\$ (0.43)
	<u>          </u>	<u>          </u>
<b>DIVIDENDS DECLARED PER COMMON SHARE</b>	<b>\$ 0.30</b>	<b>\$ 0.30</b>

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

## WESTAR ENERGY, INC.

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

	Six Months Ended June 30,	
	2002	2001
SALES:		
Energy	\$ 830,177	\$ 858,484
Monitored Services	175,144	221,018
Total Sales	1,005,321	1,079,502
COST OF SALES:		
Energy	361,985	426,925
Monitored Services	55,899	78,596
Total Cost of Sales	417,884	505,521
GROSS PROFIT	587,437	573,981
OPERATING EXPENSES:		
Operating and maintenance	191,018	181,133
Depreciation and amortization	141,848	203,957
Selling, general and administrative	176,851	161,330
Loss on dispositions of monitored services operations	—	17,979
Loss on impairment of customer accounts	332,194	—
Total Operating Expenses	841,911	564,399
INCOME (LOSS) FROM OPERATIONS	(254,474)	9,582
OTHER INCOME (EXPENSE):		
Investment earnings	47,704	13,602
Minority interests	83,083	5,723
Other	(6,092)	(5,988)
Total Other Income	124,695	13,337
INTEREST EXPENSE:		
Interest expense on long-term debt	108,952	109,586
Interest expense on short-term debt and other	22,012	21,737
Total Interest Expense	130,964	131,323
LOSSES BEFORE INCOME TAXES	(260,743)	(108,404)
Income tax benefit	(131,696)	(53,439)
NET LOSS FROM CONTINUING OPERATIONS BEFORE EXTRAORDINARY GAIN AND ACCOUNTING CHANGE	(129,047)	(54,965)
Discontinued operations, net of tax of \$700 and \$47, respectively	(3,012)	(236)
Extraordinary gain, net of tax of \$8,086 and \$5,799, respectively	14,090	10,769
Cumulative effects of accounting changes, net of tax:		
Continuing operations, net of tax of \$57,381 and \$12,347, respectively	(519,361)	18,694
Discontinued operations	(2,283)	—
Total cumulative effects of accounting changes, net of tax	(521,644)	18,694
NET INCOME (LOSS)	(639,613)	(25,738)
PREFERRED STOCK:		
Gain on reacquired preferred stock	593	—
Preferred dividends	(480)	(564)
Total change in preferred stock	113	(564)



EARNINGS (LOSSES) AVAILABLE FOR COMMON STOCK	\$ (639,500)	\$ (26,302)
Average common shares outstanding	71,508,053	70,384,333
BASIC AND DILUTED EARNINGS PER AVERAGE COMMON SHARE OUTSTANDING:		
Basic and diluted earnings (losses) available from continuing operations before extraordinary gain and accounting changes	\$ (1.80)	\$ (0.79)
Discontinued operations, net of tax	(0.04)	—
Extraordinary gain, net of tax	0.20	0.15
Accounting changes, net of tax	(7.30)	0.27
Basic and diluted earnings (losses) available after extraordinary gain and accounting change	\$ (8.94)	\$ (0.37)
DIVIDENDS DECLARED PER COMMON SHARE	\$ 0.60	\$ 0.60

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

**WESTAR ENERGY, INC.**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**  
(Dollars in Thousands)  
(Unaudited)

	Three Months Ended June 30,			
	2002		2001	
NET INCOME (LOSS)	\$12,795		\$(30,188)	
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX:				
Unrealized holding losses on marketable securities arising during the period	\$ —		\$ (345)	
Adjustment for losses included in net income	—	—	1,470	1,125
Unrealized holding losses on cash flow hedges arising during the period	(1,846)		—	
Adjustment for losses included in net income	1,193	(653)	—	—
Minimum pension liability adjustment		(4,688)		—
Foreign currency translation adjustment		265		6,793
Income tax benefit		969		—
Total other comprehensive gain (loss), net of tax		(4,107)		7,918
COMPREHENSIVE INCOME (LOSS)	\$ 8,688		\$(22,270)	
	Six Months Ended June 30,			
	2002		2001	
NET INCOME (LOSS)	\$(639,613)		\$(25,738)	
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX:				
Unrealized holding losses on marketable securities arising during the period	\$ —		\$ (587)	
Adjustment for losses included in net income	—	—	3,331	2,744
Unrealized holding gains on cash flow hedges arising during the period	20,359		—	
Adjustment for losses included in net income	2,157	22,516	—	—
Minimum pension liability adjustment		(4,688)		—
Foreign currency translation adjustment		711		4,047
Income tax expense		(7,121)		(693)
Total other comprehensive gain (loss), net of tax		11,418		6,098
COMPREHENSIVE INCOME (LOSS)	\$(628,195)		\$(19,640)	

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

**WESTAR ENERGY, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Dollars in Thousands)  
(Unaudited)

	Six Months Ended June 30,	
	2002	2001
<b>CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES:</b>		
Net income (loss)	\$ (639,613)	\$ (25,738)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Discontinued operations	3,012	236
Extraordinary gain	(14,090)	(10,769)
Cumulative effect of accounting change	521,644	(18,694)
Depreciation and amortization	141,848	203,957
Amortization of deferred gain from sale-leaseback	(5,914)	(5,914)
Amortization of non-cash stock compensation	11,465	12,606
Net changes in energy trading assets and liabilities	10,648	25,934
Equity in earnings from investments	(6,940)	(5,163)
Loss on dispositions of monitored services operations	—	17,979
Loss on impairment of customer accounts	332,194	—
Impairment on investments	—	11,075
Loss on sale of property	1,423	—
Minority interests	(83,083)	(5,723)
Accretion of discount note interest	(222)	(1,602)
Net deferred taxes	(114,963)	(28,925)
Changes in working capital items, net of acquisitions and dispositions:		
Restricted cash	(18,938)	604
Accounts receivable, net	(19,296)	4,967
Inventories and supplies	(2,790)	(21,015)
Prepaid expenses and other	(10,081)	(18,461)
Accounts payable	(265)	(32,708)
Accrued and other current liabilities	23,801	13,716
Accrued income taxes	(18,581)	(28,371)
Deferred security revenues	(538)	4,826
Changes in other assets and liabilities	(46,004)	1,972
	<u>64,717</u>	<u>94,789</u>
<b>CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES:</b>		
Additions to property, plant and equipment	(80,037)	(129,448)
Proceeds from sale of property	1,205	—
Customer account acquisitions	(12,424)	(8,928)
Proceeds from dispositions of monitored services operations	—	42,258
Proceeds from other investments	14,859	1,501
	<u>(76,397)</u>	<u>(94,617)</u>
<b>CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES:</b>		
Short-term debt, net	(213,532)	112,703
Proceeds of long-term debt	1,366,574	14,823
Retirements of long-term debt	(860,171)	(46,710)
Funds in trust for debt repayment	(235,000)	—
Retirement of Western Resources obligated mandatorily redeemable preferred securities of subsidiary trusts holding solely company subordinated debentures	(586)	—
Issuance of officer loans	(297)	—
Issuance of common stock, net	10,329	8,796
Cash dividends paid	(43,274)	(42,611)
Preferred stock redemption	(1,539)	—
Acquisition of treasury stock	(10,180)	—
Reissuance of treasury stock	—	6,784
	<u>12,324</u>	<u>53,785</u>
<b>FOREIGN CURRENCY TRANSLATION</b>	<u>711</u>	<u>4,047</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<u>1,355</u>	<u>58,004</u>
<b>CASH AND CASH EQUIVALENTS:</b>		
Beginning of period	96,388	8,762

End of period	\$ 97,743	\$ 66,766
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SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

CASH PAID FOR:

Interest on financing activities, net of amount capitalized	\$ 192,772	\$ 174,388
Income taxes	\$ 435	\$ 5,810

NON-CASH FINANCING TRANSACTIONS:

Issuance of stock to subsidiary (Note 14)	\$ 80,895	\$ 355,238
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The accompanying notes are an integral part of these consolidated financial statements.

**WESTAR ENERGY, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**JUNE 30, 2002**

**(Unaudited)**

**1. DESCRIPTION OF BUSINESS**

Westar Energy, 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,” “Westar Energy,” “we,” “us,” “our” or similar words are to Westar Energy, Inc., and its consolidated subsidiaries. We provide electric generation, transmission and distribution services to approximately 645,000 customers in Kansas and monitored security services to approximately 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. 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 87%-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 an approximate 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 (2001 Form 10-K).

**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 and six months ended June 30, 2002, are not necessarily indicative of the results to be expected for the full year.

**Defeasance of Outstanding Debt**

Under GAAP, we are required to continue reporting as outstanding debt on our consolidated balance sheet the \$100 million principal amount of our 7.25% first mortgage bonds due August 15, 2002, and the \$135 million principal amount of KGE first mortgage bonds due December 15, 2003, until the funds deposited with the trustee are used to retire such bonds at maturity. The cash

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deposited with the trustee is included in restricted cash on our consolidated balance sheet and can only be used for the purpose of repaying this indebtedness and related interest. See Note 11, "Debt Financings" for discussion of debt financings completed during the second quarter of 2002.

### **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 2001 Form 10-K 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 2001 Form 10-K. Accounting for derivatives under SFAS No. 133 will increase volatility of our future earnings.

### **Change in Depreciation Rates**

In its rate order of July 25, 2001, the Kansas Corporation Commission (KCC) extended the recovery period for certain of our generating assets for regulatory rate making purposes. On April 1, 2002, we adopted the new depreciation rates as prescribed in the KCC order for GAAP purposes, after exhausting the available appeals process to contest the extension of our recovery periods for our LaCygne 2 and Wolf Creek generating stations. This change is expected to reduce our annual depreciation expense in our GAAP financial statements by approximately \$30 million. See Note 5, "Rate Matters and Regulation" for additional information.

### **Earnings Per Share**

Basic earnings per share applicable to common stock are based on the weighted average number of common shares outstanding during the period reported. Diluted earnings per share include the effect of potential issuances of common shares resulting from the assumed vesting of all outstanding restricted share units and exercise of all outstanding stock options issued pursuant to the terms of our stock-based compensation plans. The dilutive effect of stock-based compensation and stock options is computed using the treasury stock method. The number of potential dilutive securities for the three and six months ended June 30, 2002 were 0.4 million.

### **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.

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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:

	<u>Impairment of Goodwill</u>	<u>Impairment of Customer Accounts</u>	<u>Total</u>
	(In Thousands)		
Protection One	\$ 498,921	\$ 334,064	\$ 832,985
Protection One Europe	80,104	—	80,104
	<u>579,025</u>	<u>334,064</u>	<u>913,089</u>
Total pre-tax impairment	\$ 579,025	\$ 334,064	913,089
Income tax benefit			(173,650)
Minority interest ownership			(82,615)
			<u>(256,265)</u>
Total charge, net of tax			<u>\$ 656,824</u>

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 SFAS No. 142. The following tables show our results for the three and six months ended June 30, 2001, calculated using the new accounting standard for goodwill, adjusted for minority interest, compared to our results for the three and six months ended June 30, 2002.

	<u>Three Months Ended June 30,</u>	
	<u>2002</u>	<u>2001</u>
	(In Thousands, Except Per Share Amounts)	
Reported earnings (losses) available for common stock	\$ 12,692	\$ (30,470)
Add back: Goodwill amortization	—	11,587
	<u>12,692</u>	<u>(18,883)</u>
Adjusted earnings (losses) available for common stock	\$ 12,692	\$ (18,883)
	<u>12,692</u>	<u>(18,883)</u>
<b>Basic and diluted earnings per share:</b>		
Reported earnings (losses) available for common stock	\$ 0.18	\$ (0.43)
Add back: Goodwill amortization	—	0.16
	<u>0.18</u>	<u>(0.27)</u>
Adjusted earnings (losses) available for common stock	\$ 0.18	\$ (0.27)
	<u>0.18</u>	<u>(0.27)</u>

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	Six Months Ended June 30,	
	2002	2001
(In Thousands, Except Per Share Amounts)		
Reported earnings (losses) available for common stock	\$ (639,500)	\$ (26,302)
Add back: Goodwill amortization	—	22,986
Adjusted earnings (losses) available for common stock	\$ (639,500)	\$ (3,316)
<b>Basic and diluted earnings per share:</b>		
Reported earnings (losses) available for common stock	\$ (8.94)	\$ (0.37)
Add back: Goodwill amortization	—	0.32
Adjusted earnings (losses) available for common stock	\$ (8.94)	\$ (0.05)

The investment at cost in customer accounts at June 30, 2002 and December 31, 2001 was approximately \$1.1 billion and \$1.4 billion, respectively. Accumulated amortization of the investment in customer accounts at June 30, 2002 and December 31, 2001 was \$666.3 million and \$621.3 million, respectively. We recorded approximately \$22.4 million of customer account amortization expense during the three months ended June 30, 2002 and \$38.0 million during the same period of 2001. We recorded approximately \$44.6 million of customer account amortization expense during the six months ended June 30, 2002 and \$76.0 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. The table below reflects the estimated aggregate customer account amortization expense for 2002 and each of the four succeeding fiscal years.

	2002	2003	2004	2005	2006
(In Thousands)					
Estimated amortization expense	\$89,303	\$91,924	\$95,689	\$81,872	\$83,060

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, based on the results of a lifing study performed by a third party appraisal firm in the first quarter of 2002. The lifing study showed deterioration in the average remaining life of customer accounts. The report showed Protection One's North America customer pool can expect a declining revenue stream over the next 30 years with an estimated average remaining life of 9 years. Protection One's Network Multifamily pool can expect a declining revenue stream over the next 30 years with an estimated average remaining life of 10 years. 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. Protection One's management believes these changes provide for a better match of amortization expense in the first five years of the expected decline in revenues. We account for these amortization changes prospectively as a change in estimate. These changes in estimates increased amortization expense for the three months ended June 30, 2002 by approximately \$0.2 million, net of tax of \$0.1 million, and for the six months ended June 30, 2002 by approximately \$0.4 million, net of tax of \$0.3 million. The change in estimate had no impact on our reported earnings per share.



## 5. RATE MATTERS AND REGULATION

### **KCC Rate Proceedings**

On November 27, 2000, we and KGE filed applications with the 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. Our petition for review was denied on June 12, 2002.

### **KCC Investigation and Orders**

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) establishes the rate at which we buy power from Westar Generating. On February 23, 2001, Westar Generating filed an application with the FERC to establish the rate for the sale of power to us. We have reached a settlement with the FERC staff and the KCC, the only active parties in this proceeding. We filed the settlement on May 24, 2002 with the FERC. The Administrative Law Judge certified the settlement to FERC on June 21, 2002. We expect FERC to rule on the settlement in the near future.

## 6. PNM TRANSACTION AND SPLIT-OFF OF WESTAR INDUSTRIES

### **PNM Transaction**

On May 28, 2002, we gave notice to Public Service Company of New Mexico (PNM) of termination of the merger agreement with PNM and demanded payment of a termination fee in the amount of \$25 million. See Note 13, "Legal Proceedings" for a discussion of litigation pending between us and PNM related to the termination of the merger agreement.

### **KCC Proceedings and Orders**

The merger with 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

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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 scheduled 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 we filed as ordered by the KCC as discussed below.

On February 11, 2002, the KCC issued an order primarily related to procedural matters for the review of the financial plan. 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 were amended so that the requested authority was limited to short-term (12 months or less) borrowing authority and, as a result, the KCC's and certain other parties' interventions were withdrawn. On May 10, 2002 and June 6, 2002, we completed financings under then existing FERC financing authority totaling \$1.5 billion. Proceeds from these offerings were used to satisfy upcoming long-term debt maturities and fees related to the offerings. On June 14, 2002, the FERC issued orders approving our applications for short-term borrowing authority. We may file applications for authority for medium- or long-term financing with the FERC related to refinancing future maturing indebtedness. If such applications are filed, we are unable to predict whether the KCC staff or other parties will protest or intervene and, if they do so, the extent to which the FERC will incorporate their positions in orders approving that borrowing authority or any resulting impact on our ability to refinance future maturing indebtedness.

### **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 2001 Form 10-K in Note 15 of the Notes to Consolidated Financial Statements, "PNM Merger and Split-Off of Westar Industries—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 contemplated that we would 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 did not close, we would use our best efforts to sell our shares of Westar Industries common stock, or shares of our common stock, upon the occurrence of certain events.

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On May 30, 2002, Westar Industries gave notice pursuant to a shareholder agreement with ONEOK of its intention to sell all of the common stock and preferred stock of ONEOK owned by Westar Industries. As a result of this notice having been given, ONEOK or its designee has the right to purchase the common stock and preferred stock held by Westar Industries at a cash sales price of \$21.77 per share for a period ending on the later of August 28, 2002 and 30 days from the date of receipt of all necessary regulatory approvals, but in no event later than 180 days after May 30, 2002. The sale to ONEOK would provide net proceeds to us of approximately \$738 million before expenses. If ONEOK purchases the stock, we would not proceed with the financial plan presented to the KCC.

A hearing at the KCC that reviewed the financial plan began on July 2, 2002 and concluded July 11, 2002. In conjunction with the hearing, on July 9, 2002, the KCC approved the sale of Westar Industries' interest in ONEOK subject to, among other things, the condition that the net proceeds be used to decrease utility debt. The parties in the docket, including us, will file initial briefs with respect to the hearing by August 19, 2002. Reply briefs must be filed by August 30, 2002. A decision by the KCC will follow that date, but we are unable to predict whether or when the KCC will approve the financial plan or what other action with respect to the financial plan and related matters the KCC may take. We cannot predict whether we will be successful in executing the plan.

## **7. INCOME TAXES**

We have recorded an income tax benefit for the interim periods using the federal statutory rate of 35%. The effective income tax benefit for the three months ended June 30, 2002 includes a tax benefit of approximately \$2.7 million associated with the sale of Protection One's Canadian operations. Additional information on the sale is included in Note 8, "Discontinued Operations—Sale of Canadian Operations." Our income tax benefit for the six months ended June 30, 2002 increased due to the impairment charge recorded in the first quarter of 2002. For additional information regarding the impairment charge, see Note 3, "Impairment Charge Pursuant to New Accounting Rules."

Other differences between our effective tax rate and the statutory rate include the benefit of excluding from taxable income, in accordance with IRS rules, the income from corporate-owned life insurance and 70% of the dividends received from ONEOK. In addition, certain expenses for depreciation, compensation, amortization and state income taxes also affect our effective income tax rate.

## **8. DISCONTINUED OPERATIONS—SALE OF CANADIAN OPERATIONS**

During the second quarter of 2002, Protection One entered into negotiations for the sale of its Canadian business, which is included in our monitored services segment. The sale was consummated on July 9, 2002. Protection One recorded an impairment loss of approximately \$1.3 million, net of tax of \$0.7 million, in the second quarter of 2002 as a result of the sale.

The net operating losses of these operations are included in the consolidated statements of income under discontinued operations. The net operating loss for the six months ended June 30, 2002, of \$1.7 million, includes an impairment loss on customer accounts of approximately \$1.9 million. An impairment charge of \$2.3 million relating to the Canadian operations' goodwill is reflected in the consolidated statement of income for the six months ended June 30, 2002, as a cumulative effect of accounting change from discontinued operations. Revenues from these operations were \$2.1 million and \$4.2 million for the three and six months ended June 30, 2002, compared to \$2.1 million and \$4.1 million for the three and six months ended June 30, 2001.

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The major classes of assets and liabilities of the Canadian operations are as follows:

	June 30, 2002	December 31, 2001
	(In Thousands)	
Assets:		
Current assets	\$ 948	\$ 478
Property, plant and equipment, net	608	571
Customer accounts, net	15,649	16,992
Goodwill	2,147	4,842
Other	58	55
	<hr/>	<hr/>
Total assets	\$19,410	\$ 22,938
	<hr/>	<hr/>
Liabilities:		
Current liabilities	\$ 1,333	\$ 1,364
	<hr/>	<hr/>

## 9. STOCK BASED COMPENSATION PLANS

During the second quarter of 2002, active employees awarded restricted share units (RSUs) in prior years were allowed to exchange eligible RSUs for shares of common stock. As a result, approximately 145,000 RSUs were exchanged for approximately 105,000 shares of our common stock. In addition, approximately 317,000 RSUs held by certain executive officers were exchanged for approximately 12,500 shares of preferred stock of Guardian International, Inc. Compensation expenses associated with this exchange totaled approximately \$9.0 million for the three and six months ended June 30, 2002.

## 10. 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 June 30, 2002, we incurred total costs of \$18.1 million for restoration costs, a portion of which was capitalized. We have deferred and recorded as a regulatory asset on our June 30, 2002 consolidated balance sheet restoration costs of approximately \$14.0 million. We have received an accounting authority order from the KCC that allows us to accumulate and defer for future recovery all operating and carrying costs related to storm restoration.

## 11. 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 an annual rate of 7 7/8% and the unsecured senior notes bear interest at an 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. In conjunction with the May 10, 2002 financing, we amended our secured revolving credit facility to reduce the total commitment under the facility to \$400 million from \$500 million and to release another \$100 million of our first mortgage bonds from collateral.

On June 6, 2002, we entered into a secured credit agreement providing for a \$585 million term loan and a \$150 million revolving credit facility, each maturing on June 6, 2005, provided that if we have not refinanced or provided for the payment of our 6.25% senior unsecured notes that are puttable and callable on August 15, 2003, or our 6.875% senior unsecured notes due August 15, 2004, at least 60 days prior to either such date, the maturity date is the date 60 days prior to either such date. As of August 8, 2002, \$166.6 million principal amount of our 6.25% senior unsecured notes and \$305.5 million principal amount of our 6.875% senior unsecured notes were outstanding. All loans under the credit agreement are secured by KGE's first mortgage bonds. The proceeds of the term loan were used to retire an existing revolving credit facility with an outstanding principal balance of \$380 million, to provide for the repayment at maturity of \$135 million principal

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amount of KGE first mortgage bonds due December 15, 2003 together with accrued interest, to repurchase approximately \$45 million of our outstanding unsecured notes and to pay customary fees and expenses of the transactions. There were no borrowings under the revolving credit facility at closing. As of August 8, 2002, borrowings under the revolving credit facility were \$107 million.

Under GAAP, we are required to continue reporting as outstanding debt on our consolidated balance sheet the \$100 million principal amount of our 7.25% first mortgage bonds due August 15, 2002 and the \$135 million principal amount of KGE first mortgage bonds due December 15, 2003 until the funds deposited with the trustee are used to retire such bonds at maturity. The cash deposited with the trustee is included in restricted cash on our consolidated balance sheet and can only be used for the purpose of repaying this indebtedness and related interest.

### **12. EXTRAORDINARY GAIN ON SECURITIES**

Protection One's 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 \$7.6 million, net of tax of \$4.4 million, during the three months ended June 30, 2002, and \$5.8 million, net of tax of \$3.1 million, for the same period of 2001. The extraordinary gain recognized during the six months ended June 30, 2002, was \$14.1 million, net of tax of \$8.1 million, and \$10.8 million, net of tax of \$5.8 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. We expect to adopt this standard in the third quarter of 2002. 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 adoption of this standard will have an impact on our net income or financial condition.

### **13. 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 GAAP. 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

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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. A settlement of this action was reached on June 12, 2002. A Memorandum of Understanding provides for no finding of wrongdoing on the part of any of the defendants, or any other finding that the claims alleged had merit, and a \$7.5 million payment to the plaintiffs, which will be fully funded by Protection One's existing insurance. The settlement is subject to the execution of definitive documentation and approval by the district court and is expected to take several months to finalize.

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 asserts 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.

On May 28, 2002, we notified PNM that we were terminating the merger agreement and that we sought payment from PNM of the agreement's termination fee. PNM responded that it did not believe that it was obligated to pay the fee. On May 30, 2002, we filed our answer and counterclaims to PNM's amended complaint. The counterclaims allege that PNM breached the merger agreement by wrongfully terminating the agreement and failing to pay the termination fee and failed to disclose to us its intent to withdraw from the transaction. On June 20, 2002, PNM filed its reply to our counterclaims.

PNM filed a motion for summary judgment on July 2, 2002. Limited discovery is proceeding. Our opposition is due August 30, 2002. A mediation is scheduled in September 2002 pursuant to the Court's order. We are unable to predict the outcome of this litigation.

We and our subsidiaries are involved in various other legal, environmental and regulatory proceedings. We believe that adequate provisions have 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.

## **14. 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, "PNM Transaction and Split-Off of Westar Industries," calls for a

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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 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 issued 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. In the second quarter of 2002, Westar Industries transferred to us \$71.8 million of our debt securities in exchange for 4,222,134 shares of our common stock. At June 30, 2002, Westar Industries owned \$27.3 million of our debt securities. Amounts outstanding and interest earned by Westar Industries have been eliminated in our consolidated financial statements. At June 30, 2002, Westar Industries owned 19,816,642 shares, or 21.6%, 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 calculations.

### **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, June 3, 2002, June 26, 2002 and July 26, 2002 Westar Industries and Protection One entered into amendments to the facility each of which increased the amount of the facility by \$25 million up to a total amount of \$255 million. Protection One agreed to pay a 1% amendment fee to Westar Industries based on each of the \$25 million increases in the amount of the facility. As of June 30, 2002, approximately \$196.5 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 and six months ended June 30, 2002, Westar Industries and Protection One purchased a total of \$42.3 million and \$80.8 million, respectively, face value of Protection One bonds on the open market. We recognized an extraordinary gain from the purchase of Protection One bonds of \$5.5 million, net of tax of \$3.0 million, during the three months ended June 30, 2002 and \$10.0 million, net of tax of \$5.4 million, during the six months ended June 30, 2002.

During the three and six months ended June 30, 2002, Westar Industries, Protection One and we purchased a total of \$106.3 million and \$197.4 million, respectively, face value of our bonds on the open market. For the three months ended June 30, 2002, we recognized an extraordinary gain from the purchase of our bonds of \$2.0 million, net of tax of \$1.3 million, and for the six months ended June 30, 2002, we recognized \$4.0 million, net of tax of \$2.6 million.

During July 2002, we recognized a gain of \$2.9 million, net of tax of \$1.6 million, on the repurchase of Protection One and our bonds.

During the six months ended June 30, 2002, Protection One purchased approximately \$1.5 million of our preferred stock in open market purchases. These purchases have been accounted for as retirements in our consolidated financial statements. We recognized a gain on reacquired preferred stock of approximately \$0.6 million, net of tax of \$0.4 million, for the six months ended June 30, 2002 related to these retirements.

See Note 12 of the "Notes to Consolidated Financial Statements" for information with respect to a prospective change in accounting treatment for gains and losses on the purchases and sales of these securities.

### **Financial Advisory Services**

Protection One has entered into an agreement pursuant to which it pays a quarterly fee to Westar Industries for financial advisory services equal to 0.125% of its consolidated total assets at the end of each quarter. This agreement was approved by the independent members of Protection One's board of directors. Protection One incurred approximately \$1.3 million of such fees in the second quarter of 2002 and approximately \$2.6 million of such fees in the six months ended June 30, 2002. These amounts have 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. This transaction was completed during June 2002. Although we recognized a loss of \$2.6 million on this transaction, we expect to realize annual operating cost savings of approximately \$0.9 million. The cost savings will be treated as a regulatory liability in accordance with a March 26, 2002 KCC order.

Effective July 1, 2002, we entered into an outsourcing agreement with a newly formed subsidiary of Protection One named Protection One Data Services, Inc. (PODS) pursuant to which we outsourced to PODS a significant portion of the services and functions previously performed by our internal information technology department. Approximately 100 of our information technology department employees became employees of PODS. PODS will perform the information technology services and functions for a fixed annual fee of approximately \$20.9 million, subject to adjustment. No assets were transferred to PODS, but PODS will have access to our equipment, software and facilities to provide the information technology services. The term of the outsourcing agreement expires December 31, 2005, subject to the right of either party to terminate the agreement on six months prior written notice, provided that notice of termination may not be given prior to June 30, 2003. On July 30, 2002, we filed an application for an accounting authority order with the KCC to allow the creation of a regulatory liability for the approximate \$1.5 million annual cost savings expected to be achieved as a result of this transaction.

We provide administrative services to Protection One pursuant to services agreements, including accounting, tax, audit, human resources, legal and facilities services. Protection One incurred charges of approximately \$1.5 million for the three months ended June 30, 2002 and \$2.8 million for the same period of 2001 and approximately \$3.1 million for the six months ended June 30, 2002 and \$5.2 million for the same period of 2001. We had a net intercompany balance due from Protection One primarily for these services of approximately \$1.5 million at June 30, 2002.

### **Loans to Officers**

During 2001 and 2002, we extended loans to our officers for the purpose of purchasing shares of our common stock on the open market. The officers are personally liable for the repayment of the loans, which are unsecured and bear interest, payable quarterly, at a variable rate equal to our short-term borrowing rate. The loans mature on December 4, 2004. The aggregate balance outstanding at June 30, 2002 was approximately \$2.0 million, which is classified as a reduction to shareholders' equity in the accompanying consolidated balance sheet. For the six months ended June 30, 2002, we recorded approximately \$44,000 in interest income on these loans. No additional loans will be made as a result of recently adopted federal legislation.

## **15. SEGMENTS OF BUSINESS**

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

We 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



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comprised of our security alarm monitoring business in North America and Europe. Other includes our 45% ownership 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 the same as those described in our 2001 Form 10-K 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 June 30, 2002:**

	<u>Electric Utility</u>	<u>Monitored Services</u>	<u>Other (a)</u>	<u>Total</u>
	(In Thousands)			
Sales	\$ 417,896	\$ 87,230	\$ —	\$ 505,126
Earnings (losses) before interest and taxes	58,791	(2,262)	13,217	69,746
Interest expense				69,028
Earnings before income taxes				718

**Three Months Ended June 30, 2001:**

	<u>Electric Utility</u>	<u>Monitored Services</u>	<u>Other (b) (c)</u>	<u>Total</u>
	(In Thousands)			
Sales	\$ 412,466	\$ 108,024	\$ 336	\$ 520,826
Earnings (losses) before interest and taxes	46,893	(51,397)	(1,188)	(5,692)
Interest expense				64,622
Losses before income taxes				(70,314)

**Six Months Ended June 30, 2002:**

	<u>Electric Utility</u>	<u>Monitored Services (g)</u>	<u>Other (b) (d)</u>	<u>Total</u>
	(In Thousands)			
Sales	\$ 830,177	\$ 174,892	\$ 252	\$ 1,005,321
Earnings (losses) before interest and taxes	80,090	(253,634)	43,765	(129,779)
Interest expense				130,964
Losses before income taxes				(260,743)

**Six Months Ended June 30, 2001:**

	<u>Electric Utility (e)</u>	<u>Monitored Services</u>	<u>Other (b) (f)</u>	<u>Total</u>
	(In Thousands)			
Sales	\$858,484	\$220,328	\$ 690	\$1,079,502
Earnings (losses) before interest and taxes	89,708	(78,184)	11,395	22,919
Interest expense				131,323
Losses before income taxes				(108,404)

- (a) EBIT includes investment earnings of \$13.3 million.
- (b) Sales are from a wholly owned subsidiary of Westar Industries providing paging services, which was sold during the first quarter of 2002.
- (c) EBIT includes losses on investments of \$0.5 million.
- (d) EBIT includes investment earnings of \$45.4 million consisting of a one-time payment of approximately \$14.2 million related to a partial recovery of an investment and approximately \$25.5 million of ONEOK investment earnings.
- (e) 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 \$120.7 million.
- (f) EBIT includes investment earnings of \$11.2 million.
- (g) As a result of the impairment charge recorded in the first quarter of 2002, monitored services' total assets decreased approximately \$935.5 million, from \$1.9 billion at December 31, 2001 to \$949.7 million at June 30, 2002.

**16. SUBSEQUENT EVENT**

Effective July 1, 2002, we adopted the FASB's Emerging Issues Task Force Issue 02-3 (Issue 02-3), "Accounting for Contracts Involved in Energy Trading and Risk Management Activities." Issue 02-3 requires net presentation of the mark-to-market gains and losses on energy trading contracts (whether realized or unrealized) in the income statement, unless the contract will settle physically. Currently, we report gains on these contracts in sales and losses in cost of sales in the income statement. The changes will be reflected in our consolidated financial statements for the third quarter of 2002. Prior periods shown in our consolidated financial statements will be reclassified to reflect the effect of this change and to be comparable as required by GAAP. As a result of the net presentation, we expect significant reductions in our power marketing revenues and expenses from those reported in prior periods, which will not affect net income.

**WESTAR ENERGY, INC.**

**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 (2001 Form 10-K), 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 and six months ended June 30, 2002 and 2001,
- why these earnings and costs differ from period to period,
- how our earnings and costs affect our overall financial condition and
- any other items that particularly affect our financial condition or earnings.

**SUMMARY OF SIGNIFICANT ITEMS**

**Potential Changes in ONEOK Ownership**

On May 30, 2002, Westar Industries, Inc. (Westar Industries) gave notice pursuant to a shareholder agreement with ONEOK, Inc. (ONEOK) of its intention to sell all of the common stock and preferred stock of ONEOK owned by Westar Industries. As a result of this notice having been given, ONEOK or its designee has the right to purchase the common stock and preferred stock held by Westar Industries at a cash sales price of \$21.77 per share for a period ending on the later of August 28, 2002 and 30 days from the date of receipt of all necessary regulatory approvals, but in no event later than 180 days after May 30, 2002. If ONEOK does not purchase the stock during such period, Westar Industries may sell the stock within a 16 month period after May 30, 2002. Net after tax proceeds from the sale to ONEOK would be approximately \$738 million before expenses. On July 9, 2002, the sale of Westar Industries' interest in ONEOK was approved by the Kansas Corporation Commission (KCC) subject to the condition that the net proceeds be used to reduce utility debt. Our bank credit facility requires that the net cash proceeds from a sale of ONEOK stock be used to reduce our debt. We are unable to predict whether any transaction related to a sale of ONEOK will be completed.

**Declines in Energy Markets**

During 2002, the energy trading market deteriorated due to the effects of overcapacity, narrowing margins, the Enron Corp. bankruptcy and a reduced number of creditworthy counter parties. This deterioration has resulted in significant declines in volume and liquidity, influencing the wholesale power market, primarily in the forward market. As a result, numerous participants in the market for wholesale trading of electricity have recently suffered financial setbacks that have been reported in the media and in Securities and Exchange Commission (SEC) reports. In relation to illegal or inappropriate trading practices, the Federal Energy Regulatory Commission (FERC) and the SEC are investigating many of these same participants. Market capitalization of these companies has been substantially reduced and credit ratings have, in many cases, been downgraded. Our power marketing group routinely does business with some of these companies and these companies may be counter parties to several other entities with whom we routinely do business. These developments have adversely impacted our power marketing business and we are unable to predict if or when the business environment will improve.

**CRITICAL ACCOUNTING POLICIES**

Since December 31, 2001, we have not experienced any significant changes in our critical accounting policies except for the impact of the defeasance of outstanding debt and the change in depreciation rates as discussed below. For additional information on our critical accounting policies, see our 2001 Form 10-K.

**Defeasance of Outstanding Debt**

Under generally accepted accounting principles (GAAP), we are required to continue reporting as outstanding debt on our consolidated balance sheet the \$100 million principal amount of our 7.25% first mortgage bonds due August 15, 2002,

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and the \$135 million principal amount of Kansas Gas and Electric Company (KGE) first mortgage bonds due December 15, 2003, until the funds deposited with the trustee are used to retire such bonds at maturity. The cash deposited with the trustee is included in restricted cash on our consolidated balance sheet and can be used for the sole purpose of repaying this indebtedness and related interest. See Note 11 of the Notes to Consolidated Financial Statements, "Debt Financings" for discussion of debt financings entered into during the second quarter of 2002.

### **Change in Depreciation Rates**

In its rate order of July 25, 2001, the Kansas Corporation Commission (KCC) extended the recovery period for certain of our generating assets for regulatory rate making purposes. On April 1, 2002, we adopted the new depreciation rates as prescribed in the KCC order for GAAP purposes, after exhausting the available appeals process to contest the extension of our recovery periods for our LaCygne 2 and Wolf Creek generating stations. This change is expected to reduce our annual depreciation expense in our GAAP financial statements by approximately \$30 million. See Note 5 of the Notes to Consolidated Financial Statements, "Rate Matters and Regulation" for additional information.

### **Earnings Per Share**

Basic earnings per share applicable to common stock are based on the weighted average number of common shares outstanding during the period reported. Diluted earnings per share include the effect of potential issuances of common shares resulting from the assumed vesting of all outstanding restricted share units and exercise of all outstanding stock options issued pursuant to the terms of our stock-based compensation plans. The dilutive effect of stock-based compensation and stock options is computed using the treasury stock method. The number of potential dilutive securities for the three and six months ended June 30, 2002 were 0.4 million.

## **OPERATING RESULTS**

The following discussion explains significant changes in operating results for the three and six months ended June 30, 2002 and 2001.

### **Westar Energy Consolidated**

**Three Months Ended June 30, 2002, Compared to Three Months Ended June 30, 2001:** Sales decreased \$15.7 million, or 3%, principally due to a \$20.8 million decrease in monitored services sales caused by the decline in its customer base, which was due to attrition and dispositions in 2001 of certain monitored services operations. This decrease was partially offset by a \$5.4 million increase in energy sales. Increased commercial revenues offset lower retail revenues resulting from our KCC-ordered rate decrease and decreased industrial demand resulting from weak economic conditions. Power marketing and wholesale sales also decreased due to lower prices and current market conditions. See "—Business Segments" below for additional information.

Cost of sales decreased \$31.4 million, or 13%. The decrease in the cost of sales was primarily due to a decrease in the mark to market on derivatives. This decrease was partially offset by increases in power marketing, purchased power and fuel expenses. Protection One, Inc.'s (Protection One) efforts to reduce costs through consolidation of service centers and other cost cutting measures also contributed to the decline in cost of sales. Gross profit increased \$15.7 million due to the above mentioned factors. Gross profit as a percentage of sales increased from 55% during the 2001 period to 59% during the 2002 period.

Basic earnings per share were \$0.18 for the second quarter of 2002, compared to basic losses per share of \$0.43 for the same period of 2001.

**Six Months Ended June 30, 2002, Compared to Six Months Ended June 30, 2001:** Sales decreased \$74.2 million, or 7%. 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 \$45.4 million to the decrease. Energy sales accounted for \$28.3 million of the decrease. The decrease in energy sales was principally the result of lower power marketing revenues related to lower prices and weak market conditions, lower industrial revenues related to weak economic conditions, and lower retail revenues related to our rate decrease. An increase in commercial revenues offset a portion of these decreases. See "—Business Segments" below for additional information.

Cost of sales decreased \$87.6 million, or 17%. The decrease in the cost of sales was primarily due to decreases in the mark to market on derivatives, purchased power and power marketing expense. This decrease was partially offset by increased fuel expense. Protection One's efforts to reduce costs through consolidation of service centers and other cost cutting measures also contributed to the decline in cost of sales. Gross profit increased \$13.5 million due to the above mentioned factors. Gross profit as a percentage of sales increased from 53% during the 2001 period to 58% during the 2002 period.

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Basic losses per share were \$8.94 for the six months ended June 30, 2002, compared to \$0.37 for the same period of 2001. This change is primarily attributable to the impairment charge recorded in the first quarter of 2002 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.

We 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 our 45% ownership 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 the same as those described in our 2001 Form 10-K 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 GAAP, 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. EBIT is the primary measurement used by our management to evaluate segment performance. Our computation of EBIT may not be comparable to other similarly titled measures of other companies.

### Electric Utility

Our electric sales for the three and six months ended June 30, 2002 and 2001 are as follows:

	Three Months Ended June 30,		
	2002	2001	% Change
	(In Thousands)		
Residential	\$ 98,797	\$ 101,886	(3.0)
Commercial	95,196	88,019	8.2
Industrial	61,233	63,458	(3.5)
Other	26,250	11,542	127.4
	<hr/>	<hr/>	
Total retail	\$ 281,476	\$ 264,905	6.3
Wholesale and Interchange	51,799	54,854	(5.6)
Power Marketing	84,621	92,707	(8.7)
	<hr/>	<hr/>	
Total	\$ 417,896	\$ 412,466	1.3

	Six Months Ended June 30,		
	2002	2001	% Change
	(In Thousands)		
Residential	\$ 187,411	\$ 192,805	(2.8)
Commercial	176,390	170,630	3.4
Industrial	117,445	122,514	(4.1)
Other	51,257	24,560	108.7
<b>Total retail</b>	<b>\$532,503</b>	<b>\$510,509</b>	<b>4.3</b>
Wholesale and Interchange	114,696	119,496	(4.0)
Power Marketing	182,978	228,479	(19.9)
<b>Total</b>	<b>\$830,177</b>	<b>\$858,484</b>	<b>(3.3)</b>

The following table reflects changes in electric sales volumes, as measured by megawatt hours (MWh), for the three and six months ended June 30, 2002 and 2001. No sales volumes are included for power marketing sales because these sales are not based on electricity we generate.

	Three Months Ended June 30,		
	2002	2001	% Change
	(Thousands of MWh)		
Residential	1,400	1,381	1.4
Commercial	1,703	1,566	8.7
Industrial	1,379	1,468	(6.1)
Other	26	26	—
<b>Total retail</b>	<b>4,508</b>	<b>4,441</b>	<b>1.5</b>
Wholesale and Interchange	1,979	1,716	15.3
<b>Total</b>	<b>6,487</b>	<b>6,157</b>	<b>5.4</b>

	Six Months Ended June 30,		
	2002	2001	% Change
	(Thousands of MWh)		
Residential	2,714	2,711	0.1
Commercial	3,156	3,044	3.7
Industrial	2,655	2,822	(5.9)
Other	54	54	—
<b>Total retail</b>	<b>8,579</b>	<b>8,631</b>	<b>(0.6)</b>
Wholesale and Interchange	4,509	3,733	20.8
<b>Total</b>	<b>13,088</b>	<b>12,364</b>	<b>5.9</b>

**Three Months Ended June 30, 2002, Compared to Three Months Ended June 30, 2001:** Energy sales increased \$5.4 million, or 1%. Retail sales increased \$16.6 million, or 6%, primarily due to the increase in other revenues. The increase in other revenues is attributable to a new Southwest Power Pool (SPP) network tariff. The new tariff requires us to pay to the SPP all expenses associated with transporting 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. Otherwise, retail sales increased approximately \$1.9 million, or less than 1%, with increased commercial revenues offsetting the effect of the July 2001 rate decrease and lower industrial sales caused by weak economic conditions. The decrease in power marketing sales was primarily due to lower prices and less volume being traded in the market.

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 \$19.9 million, or 10%, primarily due to a \$33.1 million decrease in the mark to market on derivatives because of market downturns as discussed above under “—Summary of Significant Items —Declines in Energy Markets.” Partially offsetting this decrease were increases of approximately \$6.7 million in power marketing expense, \$5.8 million in fuel expense and \$0.8 million in purchased power expense. Gross profit increased \$25.3 million, or 12%, due to the above mentioned factors.

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A portion of the increase in fuel and purchased power expenses was attributable to the 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.

Operating expenses increased \$15.4 million, or 9%, primarily due to a scheduling charge from the SPP as a result of the new SPP network tariff as discussed above and the exchange of restricted share units (RSUs) as discussed in Note 9 of the “Notes to Consolidated Financial Statements.”

Due to the above factors, income from operations increased \$9.9 million, which was the primary reason EBIT increased \$11.9 million, from \$46.9 million for the three months ended June 30, 2001 to \$58.8 million for the same period of 2002.

**Six Months Ended June 30, 2002, Compared to Six Months Ended June 30, 2001:** Energy sales decreased \$28.3 million, or 3%, primarily due to lower power marketing revenues, especially in comparison to the strong first quarter in 2001. Retail sales increased \$22 million, or 4%, primarily due to the increase in other revenues, which is attributable to the new SPP network tariff as discussed above. An increase in commercial revenues partially offset the effect of the July 2001 rate decrease and lower industrial demand related to weak economic conditions. Wholesale and interchange sales decreased primarily due to weather and market conditions. The decrease in power marketing sales was primarily due to lower prices and less volume being traded in the market.

Cost of sales decreased \$64.9 million, or 15%, primarily due to a \$40.3 million decrease in power marketing expense as a result of the decrease in power marketing sales, a \$27 million decrease in the mark to market on derivatives because of market downturns as discussed above under “—Summary of Significant Items — Declines in Energy Markets” and a \$6.9 million decrease in purchased power. Partially offsetting these decreases was an increase of approximately \$9.1 million in fuel expense.

Gross profit increased \$36.6 million, or 8%, due to the above mentioned factors. The increase in gross profit 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 Statement of Financial Accounting Standards (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, “Accounting for Derivative Instruments and Hedging Activities,” 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 six months ended June 30, 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 \$36.6 million increase in gross profit would have been an increase of \$5.6 million because the decline in sales would have been smaller than the decline in cost of sales.

A portion of the increase in fuel expense 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 as discussed above.

Operating expenses increased \$47.5 million, or 14%, primarily due to a scheduling charge from the SPP as a result of the new SPP network tariff as discussed above, as a result of employee severance costs related to the work force reduction during the first quarter and the compensation expense associated with the exchange of previous RSU grants as discussed in Note 9 of the “Notes to Consolidated Financial Statements.”

Due to the above factors, income from operations decreased \$10.9 million, which was the primary reason EBIT declined \$9.6 million, from \$89.7 million for the six months ended June 30, 2001 to \$80.1 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 13% at June 30, 2002 and 15% at June 30, 2001. Details concerning EBIT attributable to our monitored services segment are as follows:

	<b>Three Months Ended June 30,</b>	
	<b>2002</b>	<b>2001</b>
	<b>(In Thousands)</b>	
Sales	\$87,230	\$108,024
Earnings (losses) before interest and taxes	(2,262)	(51,397)
	<b>Six Months Ended June 30,</b>	
	<b>2002</b>	<b>2001</b>
	<b>(In Thousands)</b>	
Sales	\$174,892	\$220,328
Earnings (losses) before interest and taxes	(253,634)	(78,184)

**Three Months Ended June 30, 2002, Compared to Three Months Ended June 30, 2001:** Sales decreased \$20.8 million primarily due to a decline in the monitored services segment's average customer base, which was due primarily to attrition and dispositions in 2001 of certain monitored services operations. The monitored services segment experienced a net decline of 14,740 customers in the second 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 \$11.5 million primarily due to Protection One's reduced customer base, efforts to reduce costs through consolidation of service centers 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 \$9.3 million.

Operating expenses decreased \$62.6 million primarily due to a \$30.7 million decrease in depreciation and amortization expense primarily due to decreases in goodwill and customer account amortization as a result of adoption of SFAS No. 142, a decrease of \$18 million due to the dispositions of monitored services operations in 2001 and a decrease of \$12.3 million in selling, general and administrative expenses primarily due to declines in administrative and general salaries and outside services employed. Primarily as a result of the decline in operating expenses, EBIT increased \$49.1 million.

**Six Months Ended June 30, 2002, Compared to Six Months Ended June 30, 2001:** Sales decreased \$45.4 million primarily due to a decline in the monitored services segment's average customer base, which was due primarily to attrition and dispositions in 2001 of certain monitored services operations. The monitored services segment experienced a net decline of 32,037 customers in the six months ended 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



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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 decreased \$22.6 million primarily due to Protection One's reduced customer base, efforts to reduce costs through consolidation of service centers 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 \$22.8 million.

Operating expenses increased \$229.6 million primarily due to a \$332.2 million loss on impairment of customer accounts, which was partially offset by decreases in operating and maintenance, depreciation and amortization, selling, general and administrative expenses and dispositions of monitored services operations. The decrease in depreciation and amortization expense of \$61.3 million is primarily due to decreases in goodwill and customer account amortization as a result of the adoption of SFAS No. 142. Selling, general and administrative expenses decreased \$20 million primarily due to reductions in outside services used by Protection One primarily due to completion of special software projects and a reduction in wages and related benefits due to a reduction in Protection One's workforce. Dispositions of monitored services operations in 2001 accounted for approximately \$18 million of the decrease in operating expenses.

As a result of the decline in gross profit and the increases in operating and other expenses, loss before interest and taxes increased \$175.5 million. Also as a result of the impairment, monitored services' total assets decreased approximately \$935.5 million, from \$1.9 billion for the year ended December 31, 2001 to \$949.7 million for the six months ended June 30, 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:

	<b>Three Months Ended June 30,</b>	
	<b>2002</b>	<b>2001</b>
	<b>(In Thousands)</b>	
Sales	\$ —	\$ 336
Earnings (losses) before interest and taxes	13,217	(1,188)
	<b>Six Months Ended June 30,</b>	
	<b>2002</b>	<b>2001</b>
	<b>(In Thousands)</b>	
Sales	\$ 252	\$ 690
Earnings (losses) before interest and taxes	43,765	11,395

**Three Months Ended June 30, 2002, Compared to Three Months Ended June 30, 2001:** Sales shown above are from a wholly owned subsidiary of Westar Industries that was sold in the first quarter of 2002 that provided paging services. EBIT increased \$14.4 million primarily as a result of increased investment earnings, which increased \$13.8 million, from an investment loss of \$0.5 million in 2001 to investment earnings of \$13.3 million in 2002. During the second quarter of 2001, we wrote down the cost basis of certain equity securities to their fair value.

**Six Months Ended June 30, 2002, Compared to Six Months Ended June 30, 2001:** The timing of the disposition of Westar Industries' subsidiary, as discussed above, is the primary reason sales declined approximately \$0.4 million. EBIT increased \$32.4 million primarily as a result of increased investment earnings, which increased \$34.2 million, from \$11.2 million in 2001 to \$45.4

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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 and the write-downs of certain equity securities in 2001.

### **WESTAR ENERGY CONSOLIDATED**

The following discussion addresses changes in other items affecting net income but not affecting EBIT for the three and six months ended June 30, 2002 compared to the same period of 2001.

#### **Interest Expense**

**Three Months Ended June 30, 2002, Compared to Three Months Ended June 30, 2001:** Interest expense increased \$4.4 million primarily due to increased interest rates on long-term debt resulting from our May 10, 2002 and June 6, 2002 debt financings.

**Six Months Ended June 30, 2002, Compared to Six Months Ended June 30, 2001:** Interest expense decreased approximately \$0.4 million. During the first quarter of 2002, interest expense decreased \$4.8 million due to lower interest rates and lower outstanding debt at Protection One. This decrease was partially offset by the increase in interest expense as discussed in the above paragraph.

#### **Income Taxes**

We have recorded an income tax benefit for the interim periods using the federal statutory rate of 35%. The effective income tax benefit for the three months ended June 30, 2002 includes a tax benefit of approximately \$2.7 million associated with the sale of Protection One's Canadian operations. Additional information on the sale is included in Note 8 of the Notes to Consolidated Financial Statements, "Discontinued Operations — Sale of Canadian Operations." Our income tax benefit for the six months ended June 30, 2002 increased due to the impairment charge recorded in the first quarter of 2002. For additional information regarding the impairment charge, see Note 3 of the Notes to Consolidated Financial Statements, "Impairment Charge Pursuant to New Accounting Rules."

Other differences between our effective tax rate and the statutory rate include the benefit of excluding from taxable income, in accordance with IRS rules, the income from corporate-owned life insurance and 70% of the dividends received from ONEOK. In addition, certain expenses for depreciation, compensation, amortization and state income taxes also affect our effective income tax rate.

### **LIQUIDITY AND CAPITAL RESOURCES**

We had \$97.7 million in cash and cash equivalents at June 30, 2002. We consider cash equivalents to be highly liquid investments with a maturity of three months or less when purchased. We also had \$134.4 million of restricted cash classified as a current asset at June 30, 2002. The current asset portion of our restricted cash consists of \$17.9 million cash held in escrow as required by certain letters of credit and various other deposits, \$113.9 million cash held in trust for the defeasance of first mortgage bonds and the payment of related interest and \$2.6 million held in a trust account for Protection One's workers' compensation claims. In addition, we had \$175.2 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, \$1.0 million of cash used to collateralize letters of credit and \$140.1 million cash held in trust for the defeasance of KGE first mortgage bonds and the payment of related interest.

At June 30, 2002, current maturities of long-term debt were approximately \$118.0 million, including \$100 million of first mortgage bonds for which funds have been deposited with a trustee for defeasance, and short-term debt outstanding was \$8.8 million. Current maturities of long-term debt decreased primarily due to the repayment of certain indebtedness in conjunction with our May 10, 2002 and June 6, 2002 debt refinancings.

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 an annual rate of 7 7/8% and the

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unsecured senior notes bear interest at an 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. In conjunction with the May 10, 2002 financing, we amended our secured revolving credit facility to reduce the total commitment under the facility to \$400 million from \$500 million and to release another \$100 million of our first mortgage bonds from collateral.

On June 6, 2002, we entered into a secured credit agreement providing for a \$585 million term loan and a \$150 million revolving credit facility, each maturing on June 6, 2005, provided that if we have not refinanced or provided for the payment of our 6.25% senior unsecured notes that are putable and callable on August 15, 2003, or our 6.875% senior unsecured notes due August 15, 2004, at least 60 days prior to either such date, the maturity date is the date 60 days prior to either such date. As of August 8, 2002, \$166.6 million principal amount of our 6.25% senior unsecured notes and \$305.5 million principal amount of our 6.875% senior unsecured notes were outstanding. All loans under the credit agreement are secured by KGE's first mortgage bonds. The proceeds of the term loan were used to retire an existing revolving credit facility with an outstanding principal balance of \$380 million, to provide for the repayment at maturity of \$135 million principal amount of KGE first mortgage bonds due December 15, 2003 together with accrued interest, to repurchase approximately \$45 million of our outstanding unsecured notes and to pay customary fees and expenses of the transactions. There were no borrowings under the revolving credit facility at closing. As of August 8, 2002, borrowings under the revolving credit facility were \$107 million.

On July 25, 2002, we entered into an amendment to the agreement related to our accounts receivable securitization that extended the term for an additional year and eliminated our right to increase the amount of the accounts receivable we had a right to sell during certain periods from \$125 million to \$175 million. See Note 4 of the Notes to Consolidated Financial Statements in our 2001 Form 10-K for additional information about the accounts receivable securitization.

We believe we will have sufficient cash to fund future operations of our business, including the payment of dividends, from a combination of cash on hand, cash flow and borrowings under our revolving credit facility.

Under GAAP, we are required to continue reporting as outstanding debt on our consolidated balance sheet the \$100 million principal amount of our 7.25% first mortgage bonds due August 15, 2002, and the \$135 million principal amount of KGE first mortgage bonds due December 15, 2003, until the funds deposited with the trustee are used to retire such bonds at maturity. The cash deposited with the trustee is included in restricted cash on our consolidated balance sheet and can only be used for the purpose of repaying this indebtedness and related interest.

In August 1998, we entered into an option contract with an investment bank related to the issuance of \$400 million of our 6.25% senior unsecured notes that have a final maturity of August 15, 2018 and are putable and callable on August 15, 2003. This option contract will be settled in August 2003 through either a remarketing of the senior notes or a cash payment. If settled in cash, the amount of the payment due to the investment bank will be based on the decrease in 10 year United States treasury rates from the rate of 5.44% at the time the senior notes were issued. At the current rate of 4.37%, we would be obligated to make a cash payment of approximately \$47 million to settle the contract. The amount of our liability will increase or decrease approximately \$5 million for every 10 basis point change in the 10 year treasury rate. We have not made a determination how we will settle the contract if treasury rates in August 2003 are lower than the base rate in the contract.

The table below shows changes from our 2001 Form 10-K, in the projected future cash payments for our contractual obligations for long-term debt existing at June 30, 2002:

### At June 30, 2002:

	Total	July 1, 2002 through December 31, 2002	2003	2004	2005-2006	Thereafter
<b>Contractual Obligations</b>						
			(Dollars in Thousands)			
Long-term debt	\$3,623,416	\$107,618	\$ 159,974	\$ 322,189	\$ 983,051	\$ 2,050,584
Restricted cash deposited with the trustee for defeasance (a)	(235,000)	(100,000)	(135,000)	—	—	—
<b>Adjusted long-term debt</b>	<b>\$3,388,416</b>	<b>\$7,618</b>	<b>\$ 24,974</b>	<b>\$ 322,189</b>	<b>\$ 983,051</b>	<b>\$ 2,050,584</b>

(a) See Note 2 of the Notes to Consolidated Financial Statements, "Summary of Significant Accounting Policies" for description of funds deposited with trustee for repayment of debt.

## 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

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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 July 31, 2002, ratings with these agencies are as follows:

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

### **Cash Flows from (used in) Operating Activities**

Cash provided by operating activities decreased \$30.1 million to \$64.7 million for the six months ended June 30, 2002, from \$94.8 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 \$76.4 million during the six months ended June 30, 2002, in comparison to \$94.6 million during the same period of 2001, on net additions to property, plant and equipment. During the six months ended June 30, 2001, we spent \$39.3 million for construction of new generating facilities. These major projects were completed during 2001. Investment in customer accounts amounted to \$19.3 million during the six months ended June 30, 2002 and \$19.1 million in the same period of 2001.

Proceeds from other investments during the six months ended June 30, 2002 amounted to \$14.9 million primarily attributable to \$7.3 million received on the disposition of our portfolio of affordable housing tax credit limited partnerships and a \$5.3 million final payment from the sale of Paradigm.

### **Cash Flows from (used in) Financing Activities**

We had cash from financing activities of \$12.3 million during the six months ended June 30, 2002 compared to net cash flows from financing activities of \$53.8 million in the same period of 2001. In 2002, proceeds from the issuance of long-term debt was the primary source of cash flows from financing activities. Cash flows from financing activities were used to fund our investment in operation, the retirement or defeasance of long-term debt, the reduction of our short-term debt balance, and the payment of dividends on our common stock.

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### 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 June 30, 2002 and December 31, 2001 was as follows:

	June 30, 2002	December 31, 2001
Shareholders' equity	23%	36%
Preferred stock	1	1
Western Resources obligated mandatorily redeemable preferred securities of subsidiary trust holding solely company subordinated debentures	4	4
Long-term debt, net	72	59
<b>Total</b>	<b>100%</b>	<b>100%</b>

### 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 securities in the open market or through negotiated transactions. 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—Competition and Deregulation

As reported in our 2001 Form 10-K, the Southwest Power Pool (SPP) and the Midwest Independent System Operator (MISO) agreed in October 2001 to consolidate and form a regional transmission organization (RTO). On May 30, 2002, FERC approved the planned merger. The merger order requires MISO and SPP to file a revised consolidated open-access transmission tariff by November 1, 2002. This new organization will operate our transmission system as part of an interconnected transmission system encompassing over 120,000 MW of generation capacity located in 20 states. MISO collects revenues attributable to the use of each member's transmission system, and each member is able to transmit power purchased, generated for sale or bought for resale in the wholesale market, throughout the entire MISO system. For additional information, see “Management's Discussion and Analysis of Financial Condition and Results of Operations — Other Information — Electric Utility — Competition and Deregulation,” in our 2001 Form 10-K.

### 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 2001 Form 10-K for additional information regarding customer attrition.

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Customer attrition for the three months ended June 30, 2002 and 2001 is summarized below.

	Customer Account Attrition			
	June 30, 2002		June 30, 2001	
	Annualized Second Quarter	Trailing Twelve Month	Annualized Second Quarter	Trailing Twelve Month
Protection One (a)	10.8%	14.3%	12.3%	14.3%
Protection One Europe (b)	19.8%	11.3%	10.2%	6.9%

(a) Excludes Canadian operations.

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

## 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. For additional information on our market risk, see our 2001 Form 10-K.

## 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 and six months ended June 30, 2002:

	Natural Gas Hedges (a)	Interest Rate Swap	Total Cash Flow Hedges
	(Dollars in Thousands)		
<b>Three Months Ended June 30, 2002:</b>			
Fair value of derivative instruments:			
Current	\$ 1,627	\$ —	\$ 1,627
Long-term	4,679	(6,548)	(1,869)
<b>Total</b>	<b>\$ 6,306</b>	<b>\$ (6,548)</b>	<b>\$ (242)</b>
Change in amounts in accumulated other comprehensive income	\$ 5,219	\$ (7,065)	\$ (1,846)
Adjustment for losses included in net income	1,193	—	1,193
Change in estimated income tax expense (benefit)	(2,415)	1,548	(867)
<b>Net Comprehensive Gain</b>	<b>\$ 3,997</b>	<b>\$ (5,517)</b>	<b>\$ (1,520)</b>
Anticipated reclassifications to earnings in the next 12 months (b)	\$ 1,627	\$ —	\$ 1,627
Duration of hedge designation as of June 30, 2002	25 months	16 months	—

	Natural Gas Hedges (a)	Interest Rate Swap	Total Cash Flow Hedges
(Dollars in Thousands)			
<b>Six Months Ended June 30, 2002:</b>			
Fair value of derivative instruments:			
Current	\$ 1,627	\$ —	\$ 1,627
Long-term	4,679	(6,548)	(1,869)
<b>Total</b>	<b>\$ 6,306</b>	<b>\$ (6,548)</b>	<b>\$ (242)</b>
Change in amounts in accumulated other comprehensive income	\$ 24,251	\$ (3,892)	\$ 20,359
Adjustment for losses included in net income	2,157	—	2,157
Change in estimated income tax expense (benefit)	(10,504)	1,548	(8,956)
<b>Net Comprehensive Gain</b>	<b>\$ 15,904</b>	<b>\$ (2,344)</b>	<b>\$ 13,560</b>
Anticipated reclassifications to earnings in the next 12 months (b)	\$ 1,627	\$ —	\$ 1,627
Duration of hedge designation as of June 30, 2002	25 months	16 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 25 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 six months ended June 30, 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
Less contracts realized or otherwise settled during the period	10,991
Fair value of new contracts entered into during the period	26,751
<b>Fair value of contracts outstanding at the end of the period</b>	<b>\$ 18,069</b>

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)	\$ 2,055	\$ (1,957)	\$ 4,012	\$ —	\$ —
Prices provided by other external sources (swaps and forwards)	18,008	11,934	6,074	—	—
Prices based on models and other valuation models (options and other)	(1,994)	(1,487)	(507)	—	—
<b>Total fair value of contracts outstanding</b>	<b>\$ 18,069</b>	<b>\$ 8,490</b>	<b>\$ 9,579</b>	<b>\$ —</b>	<b>\$ —</b>

#### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Information relating to the 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” which is incorporated herein by reference.

**WESTAR ENERGY, INC.****Part II. Other Information****ITEM 1. LEGAL PROCEEDINGS**

Information regarding legal proceedings is set forth in Note 13 in the “Notes to Consolidated Financial Statements” included in Part 1, Item 1 of this report. The disclosure set forth in Note 13, “Legal Proceedings” is incorporated herein by reference.

**ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS**

On May 10, 2002, we issued 1,097,631 shares of our common stock to Westar Industries in exchange for \$19.0 million principal amount of our 6.25% senior notes that are putable and callable in August 2003.

On May 21, 2002, we issued 208,956 shares of our common stock to Westar Industries in exchange for \$3.6 million principal amount of our 6.25% senior notes that are putable and callable in August 2003.

On June 6, 2002, we issued 2,915,547 shares of our common stock to Westar Industries in exchange for approximately \$50.2 million principal amount of our 6.25% senior notes that are putable and callable in August 2003.

No underwriters were involved in these transactions, all of which were exempt from registration pursuant to Section 4(2) of the Securities Act of 1933.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None

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

Our annual meeting of shareholders was held on June 11, 2002. At the meeting, the holders of 59,193,978 shares voted either in person or by proxy to elect two Class III directors and one Class I director and to amend our Restated Articles of Incorporation to change our name from Western Resources, Inc. to Westar Energy, Inc.

Mr. Becker and Mr. Lake were elected Class III directors to serve a term of three years. Mr. Edwards was elected a Class I director to serve a term of one year.

	Votes	
	For	Withheld
Frank J. Becker	56,850,801	2,343,177
Douglas T. Lake	56,832,927	2,361,051
R.A. Edwards	56,349,976	2,844,002

Our Restated Articles of Incorporation were amended to change our name from Western Resources, Inc. to Westar Energy, Inc. The vote was as follows:

For	Against	Abstain
56,431,491	2,079,384	683,103



**ITEM 5. OTHER INFORMATION**

None

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

(a) Exhibits:

- 4.1 – Forty-First Supplemental Indenture dated June 6, 2002 between Kansas Gas and Electric Company and BNY Midwest Trust Company, as Trustee.
- 10.1 – Amendment to Employment Agreement dated April 1, 2002 between Western Resources, Inc. and David C. Wittig.
- 10.2 – Amendment to Employment Agreement dated April 1, 2002 between Western Resources, Inc. and Douglas T. Lake.
- 10.3 – Credit Agreement dated as of June 6, 2002 among Western Resources, Inc., the lenders from time to time party there to, JPMorgan Chase Bank, as Administrative Agent, Citibank, N.A., as Syndication Agent, and Bank of America, N.A., as Documentation Agent.
- 99.1 – Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(b) Reports on Form 8-K filed during the three months ended June 30, 2002:

- Form 8-K filed April 26, 2002 – Announcing that Westar Industries is reviewing alternatives for changing its investment in ONEOK.
- Form 8-K filed May 10, 2002 – Announcing the issuance of \$365 million principal amount of first mortgage bonds, 7 7/8% series due 2007, and \$400 million principal amount of senior notes, 9 3/4% series due 2007.
- Form 8-K filed May 29, 2002 – Announcing that a letter was sent to ONEOK informing it of our view that its management has not been sufficiently diligent in pursuing all available means of maximizing ONEOK shareholder value.
- Form 8-K filed May 30, 2002 – Announcing that (1) effective May 30, 2002, our Audit and Finance Committee of the Board of Directors decided not to engage Arthur Andersen LLP as our public accountants and engaged Deloitte & Touche LLP to serve as our principal accountants for fiscal year 2002, (2) on May 30, 2002, notice was given to ONEOK of the intention of Westar Industries to sell all of the common stock and preferred stock of ONEOK owned by Westar Industries to a third person, and (3) on May 28, 2002, we gave notice of termination of the Agreement and Plan of Restructuring and Merger among us, Public Service Company of New Mexico (PNM) and certain related parties and that we have demanded that PNM pay us the \$25 million termination fee required by the agreement.
- Form 8-K Filed June 6, 2002 – Announcing that we entered into a secured credit agreement arranged by J.P. Morgan Securities, Inc. providing for a \$585 million term loan and a \$150 million revolving credit facility, each maturing on June 6, 2005.

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Form 8-K Filed June 10, 2002 – Filing an investor presentation to be presented at the annual meeting of shareholders on June 11, 2002.

**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.

**WESTAR ENERGY, INC.**

Date: August 14, 2002

By: /s/ PAUL R. GEIST

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

=====

KANSAS GAS AND ELECTRIC COMPANY

TO

BNY MIDWEST TRUST COMPANY  
(successor to Harris Trust and Savings Bank)

and

JUDITH L. BARTOLINI  
(successor to W. A. Spooner, Henry A. Theis, Oliver R. Brooks,  
Wesley L. Baker, Edwin F. McMichael and R. Amundsen)

as Trustees under Kansas Gas and Electric Company's  
Mortgage and Deed of Trust, Dated as of April 1, 1940

FORTY-FIRST SUPPLEMENTAL INDENTURE

Providing, among other things, for  
First Mortgage Bonds, 8% Series Due 2005

Dated as of June 6, 2002

=====

FORTY-FIRST SUPPLEMENTAL INDENTURE

INDENTURE, dated as of June 6, 2002, between KANSAS GAS AND ELECTRIC COMPANY, a corporation of the State of Kansas (formerly named KCA Corporation and successor by merger to Kansas Gas and Electric Company, a corporation of the State of Kansas, hereinafter sometimes called the "Company-Kansas"), whose post office address is 120 East First Street, Wichita, Kansas 67202 (hereinafter sometimes called the "Company"), and BNY Midwest Trust Company, a corporation of the State of Illinois, whose post office address is 2 North LaSalle Street, Suite 1020, Chicago, Illinois 60602 (successor to Harris Trust and Savings Bank (the "Corporate Trustee")), and JUDITH L. BARTOLINI (successor to W.A. Spooner, Henry A. Theis, Oliver R. Brooks, Wesley L. Baker, Edwin F. McMichael and R. Amundsen, and being hereinafter sometimes called the "Individual Trustee"), whose post office address is 2 North LaSalle Street, Suite 1020, Chicago, Illinois 60602 (the Corporate Trustee and the Individual Trustee being hereinafter together sometimes called the "Trustees"), as Trustees under the Mortgage and Deed of Trust, dated as of April 1, 1940 (hereinafter called the "Mortgage"), which Mortgage was executed and delivered by Kansas Gas and Electric Company, a corporation of the State of West Virginia to which the Company-Kansas was successor by merger (hereinafter sometimes called the "Company-West Virginia"), to secure the payment of bonds issued or to be issued under and in accordance with the provisions of the Mortgage, reference to which Mortgage is hereby made, this Indenture (hereinafter sometimes called the "Forty-first Supplemental Indenture") being supplemental thereto;

WHEREAS, the Company-West Virginia caused the Mortgage to be filed for record as a mortgage of real property and as a chattel mortgage in the offices of the Registers of Deeds in various counties in the State of Kansas, and on April 25, 1940 paid to the Register of Deeds of Sedgwick County, Kansas, that being the County in which the Mortgage was first filed for record, the sum of \$40,000 in payment of the Kansas mortgage registration tax as provided by Section 79-3101 et seq., General Statutes of Kansas 1935; and

Whereas, by the Mortgage, the Company-West Virginia covenanted that it would execute and deliver such supplemental indenture or indentures and such further instruments and do such further acts as might be necessary or proper to carry out more effectually the purposes of the Mortgage and to make subject to the lien of the Mortgage any property thereafter acquired, intended to be subject to the lien thereof; and

Whereas, an instrument, dated May 31, 1949, was executed by the Company-West Virginia appointing Oliver R. Brooks as Individual Trustee in succession to said Henry A. Theis, resigned, under the Mortgage, and by Oliver R. Brooks accepting the appointment as Individual Trustee under the Mortgage in succession to said Henry A. Theis, which instrument was filed for record in the offices of the Registers of Deeds in various counties in the State of Kansas; and

Whereas, an instrument, dated March 3, 1958, was executed by the Company-West Virginia appointing Wesley L. Baker as Individual Trustee in succession to said Oliver R. Brooks, resigned, under the Mortgage, and by Wesley L. Baker accepting the appointment as Individual Trustee

under the Mortgage in succession to said Oliver R. Brooks, which instrument was filed for record in the offices of the Registers of Deeds in various counties in the State of Kansas; and

Whereas, an instrument, dated November 20, 1969, was executed by the Company-West Virginia appointing Edwin F. McMichael as Individual Trustee in succession to said Wesley L. Baker, resigned, under the Mortgage, and by Edwin F. McMichael accepting the appointment as Individual Trustee under the Mortgage in succession to said Wesley L. Baker, which instrument was filed for record in the offices of the Registers of Deeds in various counties in the State of Kansas; and

Whereas, by the Twenty-seventh Supplemental Indenture mentioned below, the Company-Kansas, among other things, appointed R. Amundsen as Individual Trustee in succession to said Edwin F. McMichael, resigned, under the Mortgage, and by R. Amundsen accepting the appointment as Individual Trustee under the Mortgage in succession to said Edwin F. McMichael; and

Whereas, by the Thirty-second Supplemental Indenture mentioned below, the Company-Kansas, among other things, appointed W. A. Spooner as Individual Trustee in succession to said R. Amundsen, resigned, under the Mortgage, and by W. A. Spooner accepting the appointment as Individual Trustee under the Mortgage in succession to said R. Amundsen; and

Whereas, by the Fortieth Supplemental Indenture mentioned below, the Company-Kansas, among other things, appointed Judith L. Bartolini as Individual Trustee in succession to said W.A. Spooner resigned, under the Mortgage, and by Judith L. Bartolini accepting the appointment as Individual Trustee under the Mortgage in succession to said W.A. Spooner; and

Whereas, the Company-West Virginia executed and delivered to the Trustees a First Supplemental Indenture, dated as of June 1, 1942 (which supplemental indenture is hereinafter sometimes called the "First Supplemental Indenture"); and

Whereas, the Company-West Virginia caused the First Supplemental Indenture to be filed for record as a mortgage of real property and as a chattel mortgage in the offices of the Registers of Deeds in various counties in the State of Kansas, but paid no mortgage registration tax in connection with the recordation of the First Supplemental Indenture, no such tax having been payable in connection with such recordation; and

Whereas, the Company-West Virginia executed and delivered to the Trustees the following supplemental indentures:

Designation -----	Dated as of -----
Second Supplemental Indenture .....	March 1, 1948
Third Supplemental Indenture .....	December 1, 1949
Fourth Supplemental Indenture .....	June 1, 1952
Fifth Supplemental Indenture .....	October 1, 1953
Sixth Supplemental Indenture .....	March 1, 1955
Seventh Supplemental Indenture .....	February 1, 1956
Eighth Supplemental Indenture .....	January 1, 1961

Ninth Supplemental Indenture .....	May 1, 1966
Tenth Supplemental Indenture .....	March 1, 1970
Eleventh Supplemental Indenture .....	May 1, 1971
Twelfth Supplemental Indenture .....	March 1, 1972

which supplemental indentures are hereinafter sometimes called the Second through Twelfth Supplemental Indentures, respectively; and

Whereas, the Company-West Virginia caused the Second through Eighth Supplemental Indentures to be filed for record as a mortgage of real property and as a chattel mortgage in the offices of the Registers of Deeds in various counties in the State of Kansas, and caused the Ninth through Twelfth Supplemental Indentures to be filed for record as a mortgage of real property in the offices of the Registers of Deeds in various counties in the State of Kansas and as a chattel mortgage in the Office of the Secretary of State of Kansas, and on the following dates paid to the Register of Deeds of Sedgwick County, Kansas, that being the County in which the Second through Twelfth Supplemental Indentures were first filed for record as a mortgage of real property, the following amounts:

Date ----	Amount -----
March 30, 1948 .....	\$12,500
December 7, 1949 .....	7,500
June 17, 1952 .....	30,000
October 21, 1953 .....	25,000
March 22, 1955 .....	25,000
March 5, 1956 .....	17,500
January 24, 1961 .....	17,500
May 17, 1966 .....	40,000
March 10, 1970 .....	87,500
May 19, 1971 .....	87,500
March 23, 1972 .....	62,500

such amounts being in payment of the Kansas mortgage registration tax as provided by the then currently applicable sections of the statutes of the State of Kansas in effect on those dates; and

Whereas, the Company-West Virginia was merged into the Company-Kansas on May 31, 1973; and

Whereas, in order to evidence the succession of the Company-Kansas to the Company-West Virginia and the assumption by the Company-Kansas of the covenants and conditions of the Company-West Virginia in the bonds and in the Mortgage contained, and to enable the Company-Kansas to have and exercise the powers and rights of the Company-West Virginia under the Mortgage in accordance with the terms thereof, the Company-Kansas executed and delivered to the Trustees a Thirteenth Supplemental Indenture, dated as of May 31, 1973 (which supplemental indenture is hereinafter sometimes called the "Thirteenth Supplemental Indenture"); and

Whereas, the Company-Kansas caused the Thirteenth Supplemental Indenture to be filed for record as a mortgage of real property in the offices of the Registers of Deeds in various counties in the State of Kansas and as a chattel mortgage in the Office of the Secretary of State of Kansas, but paid no mortgage registration tax in connection with the recordation of the Thirteenth Supplemental Indenture, no such tax having been payable in connection with such recordation; and

Whereas, the Company-Kansas executed and delivered to the Trustees the following supplemental indentures:

Designation -----	Dated as of -----
Fourteenth Supplemental Indenture .....	July 1, 1975
Fifteenth Supplemental Indenture .....	December 1, 1975
Sixteenth Supplemental Indenture .....	September 1, 1976
Seventeenth Supplemental Indenture .....	March 1, 1977
Eighteenth Supplemental Indenture .....	May 1, 1977
Nineteenth Supplemental Indenture .....	August 1, 1977
Twentieth Supplemental Indenture .....	March 15, 1978
Twenty-first Supplemental Indenture .....	January 1, 1979
Twenty-second Supplemental Indenture .....	April 1, 1980
Twenty-third Supplemental Indenture .....	July 1, 1980
Twenty-fourth Supplemental Indenture .....	August 1, 1980
Twenty-fifth Supplemental Indenture .....	June 1, 1981
Twenty-sixth Supplemental Indenture .....	December 1, 1981
Twenty-seventh Supplemental Indenture .....	May 1, 1982
Twenty-eighth Supplemental Indenture .....	March 15, 1984
Twenty-ninth Supplemental Indenture .....	September 1, 1984
Thirtieth Supplemental Indenture .....	September 1, 1984
Thirty-first Supplemental Indenture .....	February 1, 1985
Thirty-second Supplemental Indenture .....	April 15, 1986
Thirty-third Supplemental Indenture .....	June 1, 1991
Thirty-fourth Supplemental Indenture .....	March 31, 1992
Thirty-fifth Supplemental Indenture .....	December 17, 1992
Thirty-sixth Supplemental Indenture .....	August 12, 1993
Thirty-seventh Supplemental Indenture .....	January 15, 1994
Thirty-eighth Supplemental Indenture .....	March 1, 1994
Thirty-ninth Supplemental Indenture .....	April 15, 1994
Fortieth Supplemental Indenture .....	June 28, 2000

which supplemental indentures are hereinafter sometimes called the Fourteenth through Fortieth Supplemental Indentures, respectively; and

Whereas, the Company-Kansas caused the Fourteenth Supplemental Indenture to be filed for record as a mortgage of real property in the offices of the Registers of Deeds in various counties in the State of Kansas and as a chattel mortgage in the Office of the Secretary of State of Kansas; and



Whereas, the Company-Kansas caused the Fifteenth Supplemental Indenture to be filed for record as a mortgage of real property in the office of the Register of Deeds of Sedgwick County, Kansas (filed on December 10, 1975, Film 169, page 363), and as a chattel mortgage in the Office of the Secretary of State of Kansas (filed on December 10, 1975 and indexed as No. 325,911); and

Whereas, the Company-Kansas caused the Sixteenth Supplemental Indenture to be filed for record as a mortgage of real property in the office of the Register of Deeds of Sedgwick County, Kansas (filed on September 29, 1976, Film 21 1, page 363), and as a chattel mortgage in the Office of the Secretary of State of Kansas (filed on September 29, 1976 and indexed as No. 363,835); and

Whereas, the Company-Kansas caused the Seventeenth Supplemental Indenture to be filed for record as a mortgage of real property in the office of the Register of Deeds of Sedgwick County, Kansas (filed on March 16, 1977, Film 234, page 492), and as a chattel mortgage in the Office of the Secretary of State of Kansas (filed on March 1, 1977 and indexed as No. 384,759); and

Whereas, the Company-Kansas caused the Eighteenth Supplemental Indenture to be filed for record as a mortgage of real property in the office of the Register of Deeds of Sedgwick County, Kansas (filed on May 26, 1977, Film 246, page 655), and as a chattel mortgage in the Office of the Secretary of State of Kansas (filed on May 26, 1977 and indexed as No. 394,573); and

Whereas, the Company-Kansas caused the Nineteenth Supplemental Indenture to be filed for record as a mortgage of real property in the office of the Register of Deeds of Sedgwick County, Kansas (filed on August 31, 1977, Film 263, page 882), and as a chattel mortgage in the Office of the Secretary of State of Kansas (filed on September 1, 1977 and indexed as No. 406,577); and

Whereas, the Company-Kansas caused the Twentieth Supplemental Indenture to be filed for record as a mortgage of real property in the office of the Register of Deeds of Sedgwick County, Kansas (filed on March 29, 1978, Film 297, pages 635-656), and as a chattel mortgage in the Office of the Secretary of State of Kansas (filed on March 30, 1978 and indexed as No. 434,072); and

Whereas, the Company-Kansas caused the Twenty-first Supplemental Indenture to be filed for record as a mortgage of real property in the office of the Register of Deeds of Sedgwick County, Kansas (filed on January 9, 1979, Film 345, page 648), and as a chattel mortgage in the Office of the Secretary of State of Kansas (filed on January 10, 1979 and indexed as No. 470,851); and

Whereas, the Company-Kansas caused the Twenty-second Supplemental Indenture to be filed for record as a mortgage of real property in the office of the Register of Deeds of Sedgwick County, Kansas (filed on April 2, 1980, Film 413, page 1,468), and as a chattel mortgage in the Office of the Secretary of State of Kansas (filed on April 3, 1980 and indexed as No. 533,415); and

Whereas, the Company-Kansas caused the Twenty-third Supplemental Indenture to be filed for record as a mortgage of real property in the office of the Register of Deeds of Sedgwick County, Kansas (filed on July 1, 1980, Film 425, page 1,003), and as a chattel mortgage in the Office of the Secretary of State of Kansas (filed on July 2, 1980 and indexed as No. 546,185); and

Whereas, the Company-Kansas caused the Twenty-fourth Supplemental Indenture to be filed for record as a mortgage of real property in the office of the Register of Deeds of Sedgwick County, Kansas (filed on August 28, 1980, Film 435, page 266), and as a chattel mortgage in the Office of the Secretary of State of Kansas (filed on August 29, 1980 and indexed as No. 554,543); and

Whereas, the Company-Kansas caused the Twenty-fifth Supplemental Indenture to be filed for record as a mortgage of real property in the office of the Register of Deeds of Sedgwick County, Kansas (filed on June 30, 1981, Film 483, page 1,512), and as a chattel mortgage in the Office of the Secretary of State of Kansas (filed on June 30, 1981 and indexed as No. 601,270); and

Whereas, the Company-Kansas caused the Twenty-sixth Supplemental Indenture to be filed for record as a mortgage of real property in the office of the Register of Deeds of Sedgwick County, Kansas (filed on December 30, 1981, Film 510, page 300), and as a chattel mortgage in the Office of the Secretary of State of Kansas (filed on December 31, 1981 and indexed as No. 628,293); and

Whereas, the Company-Kansas caused the Twenty-seventh Supplemental Indenture to be filed for record as a mortgage of real property in the office of the Register of Deeds of Sedgwick County, Kansas (filed on May 6, 1982, Film 526, page 1,141), and as a chattel mortgage in the Office of the Secretary of State of Kansas (filed on May 7, 1982 and indexed as No. 650,115); and

Whereas, the Company-Kansas caused the Twenty-eighth Supplemental Indenture to be filed for record as a mortgage of real property in the office of the Register of Deeds of Sedgwick County, Kansas (filed on March 22, 1984, Film 645, page 1,524), and as a chattel mortgage in the Office of the Secretary of State of Kansas (filed on March 23, 1984 and indexed as No. 796,449); and

Whereas, the Company-Kansas caused the Twenty-ninth Supplemental Indenture to be filed for record as a mortgage of real property in the office of the Register of Deeds of Sedgwick County, Kansas (filed on September 5, 1984, Film 681, page 763), and as a chattel mortgage in the Office of the Secretary of State of Kansas (filed on September 6, 1984 and indexed as No. 852,425); and

Whereas, the Company-Kansas caused the Thirtieth Supplemental Indenture to be filed for record as a mortgage of real property in the office of the Register of Deeds of Sedgwick County, Kansas (filed on September 12, 1984, Film 682, page 1,087), and as a chattel mortgage in the Office of the Secretary of State of Kansas (filed on September 13, 1984 and indexed as No. 854,284); and

Whereas, the Company-Kansas caused the Thirty-third Supplemental Indenture to be filed for record as a mortgage of real property in the office of the Register of Deeds of Sedgwick County, Kansas (filed on June 18, 1991, Film 1177, page 0876), and as a security agreement in the Office of Secretary of State of Kansas (filed on June 18, 1991 and indexed as No. 1,693,446); and

Whereas, the Company-Kansas caused the Fortieth Supplemental Indenture to be filed for record as a mortgage of real property in the office of the Register of Deeds of Sedgwick County, Kansas

(filed on June 28, 2000, Film 2062, page 0053), and as a security agreement in the Office of Secretary of State of Kansas (filed on June 28, 2000, and indexed as No. 3756913); and

Whereas, the Company on the following dates paid to the Register of Deeds of Sedgwick County, Kansas, that being the County in which the Fourteenth through Thirtieth Supplemental Indentures, the Thirty-third Supplemental Indenture and the Fortieth Supplemental Indenture were first filed for record as a mortgage of real property, the following amounts:

Date ----	Amount -----
July 2, 1975 .....	\$100,000
December 10, 1975 .....	48,750
September 29, 1976 .....	62,500
March 16, 1977 .....	62,500
May 26, 1977 .....	25,000
August 31, 1977 .....	6,100
March 29, 1978 .....	62,500
January 9, 1979 .....	36,250
April 2, 1980 .....	67,500
July 1, 1980 .....	37,500
August 28, 1980 .....	63,750
June 30, 1981 .....	75,000
December 30, 1981 .....	62,500
May 6, 1982 .....	100,000
March 22, 1984 .....	93,750
September 5, 1984 .....	75,000
September 12, 1984 .....	50,000
June 18, 1991 .....	334,100
June 28, 2000 .....	1,780,538.50

such amounts being in payment of the Kansas mortgage registration tax as provided by the then currently applicable sections of the statutes of the State of Kansas in effect on those dates; and

Whereas, the Company-Kansas caused the Thirty-first Supplemental Indenture to be filed for record as a mortgage of real property in the office of the Register of Deeds of Sedgwick County, Kansas (filed on February 1, 1985, Film 707, page 378), and as a chattel mortgage in the Office of the Secretary of State of Kansas (filed on February 4, 1985 and indexed as No. 895,468), but paid no mortgage registration tax in connection with the recordation of the Thirty-first Supplemental Indenture, no such tax having been payable in connection with such recordation; and

Whereas, the Company-Kansas caused the Thirty-second Supplemental Indenture to be filed for record as a mortgage of real property in the office of the Register of Deeds of Sedgwick County, Kansas (filed on April 16, 1986, Film 791, page 1,336), and as a chattel mortgage in the Office of the Secretary of State of Kansas (filed on April 17, 1986 and indexed as No. 1,048,212), but

paid no mortgage registration tax in connection with the recordation of the Thirty-second Supplemental Indenture, no such tax having been payable in connection with such recordation; and

Whereas, in order to evidence the succession of the Company to the Company-Kansas and the assumption by the Company of the covenants and conditions of the Company-Kansas in the bonds and in the Mortgage contained, and to enable the Company to have and exercise the powers and rights of the Company-Kansas under the Mortgage in accordance with the terms thereof, the Company executed and delivered to the Trustees a Thirty-fourth Supplemental Indenture, dated as of March 31, 1992 (which supplemental indenture is hereinafter sometimes called the "Thirty-fourth Supplemental Indenture"); and

Whereas, the Company-Kansas caused the Thirty-fourth Supplemental Indenture to be filed for record as a mortgage of real property in the office of the Register of Deeds of Sedgwick County, Kansas (filed on March 31, 1992, Film 1236, page 987), and as a security agreement in the Office of Secretary of State of Kansas (filed on March 31, 1992 and indexed as No. 1,780,893), but paid no mortgage registration tax in connection with the recordation of the Thirty-fourth Supplemental Indenture, no such tax having been payable in connection with such recordation; and

Whereas, the Company caused the Thirty-fifth Supplemental Indenture to be filed for record as a mortgage of real property in the office of the Register of Deeds of Sedgwick County, Kansas (filed on December 16, 1992, Film 301, page 0104), and as a security agreement in the Office of Secretary of State of Kansas (filed on December 16, 1992 and indexed as No. 1,861,886), but paid no mortgage registration tax in connection with the recordation of the Thirty-fifth Supplemental Indenture, no such tax having been payable in connection with such recordation; and

Whereas, the Company-Kansas caused the Thirty-sixth Supplemental Indenture to be filed for record as a mortgage of real property in the office of the Register of Deeds of Sedgwick County, Kansas (filed on August 10, 1993, Film 1364, page 0515), and as a security agreement in the Office of Secretary of State of Kansas (filed on August 11, 1993 and indexed as No. 1,936,501), but paid no mortgage registration tax in connection with the recordation of the Thirty-sixth Supplemental Indenture, no such tax having been payable in connection with such recordation; and

Whereas, the Company-Kansas caused the Thirty-seventh Supplemental Indenture to be filed for record as a mortgage of real property in the office of the Register of Deeds of Sedgwick County, Kansas (filed on January 18, 1994, Film 1411, page 0710), and as a security agreement in the Office of Secretary of State of Kansas (filed on January 18, 1994 and indexed as No. 1,985,104), but paid no mortgage registration tax in connection with the recordation of the Thirty-seventh Supplemental Indenture, no such tax having been payable in connection with such recordation; and

Whereas, the Company-Kansas caused the Thirty-eighth Supplemental Indenture to be filed for record as a mortgage of real property in the office of the Register of Deeds of Sedgwick County, Kansas (filed on February 28, 1994, Film 1422, page 1046), and as a security agreement in the Office of Secretary of State of Kansas (filed on February 28, 1994 and indexed as No. 1,997,743), but paid no mortgage registration tax in connection with the recordation of the Thirty-eighth Supplemental Indenture, no such tax having been payable in connection with such recordation;

WHEREAS, the Company-Kansas caused the Thirty-ninth Supplemental Indenture to be filed for record as a mortgage of real property in the office of the Register of Deeds of Sedgwick County, Kansas (filed on April 27, 1994, Film 1440, page 855), and as a security agreement in the Office of Secretary of State of Kansas (filed on April 27, 1994 and indexed as No. 1,377,915), but paid no mortgage registration tax in connection with the recordation of the Thirty-ninth Supplemental Indenture, no such tax having been payable in connection with such recordation; and

Whereas, the Company-West Virginia, the Company-Kansas or the Company has from time to time caused to be filed in the respective offices of the above-mentioned Registers of Deeds and Secretary of State affidavits executed by the Trustees under the Mortgage, preserving and continuing the lien thereof either as a chattel mortgage in accordance with the provisions of K.S.A. 58-303 (Section 58-303 of the General Statutes of Kansas 1935) or as a security agreement under the provisions of K.S.A. 84-9-401 et seq.; and

Whereas, in addition to the aforesaid filings for record in the respective offices of the above-mentioned Registers of Deeds, the Company-West Virginia, the Company-Kansas or the Company has filed copies of the Mortgage and the First through Fortieth Supplemental Indentures, certified as true by it, with the Secretary of State of Kansas; and

Whereas, the Company-West Virginia, the Company-Kansas or the Company has heretofore issued, in accordance with the provisions of the Mortgage, as heretofore supplemented, the following series of First Mortgage Bonds:

Series -----	Principal Amount Issued -----	Principal Amount Outstanding -----
3-3/8% Series due 1970 .....	\$16,000,000	None
3-1/8% Series due 1978 .....	5,000,000	None
2-3/4% Series due 1979 .....	3,000,000	None
3-3/8% Series due 1982 .....	12,000,000	None
3-5/8% Series due 1983 .....	10,000,000	None
3-3/8% Series due 1985 .....	10,000,000	None
3-3/8% Series due 1986 .....	7,000,000	None
4-5/8% Series due 1991 .....	7,000,000	None
5-5/8% Series due 1996 .....	16,000,000	None
8-1/2% Series due 2000 .....	35,000,000	None
8-1/8% Series due 2001 .....	35,000,000	None
7-3/8% Series due 2002 .....	25,000,000	None
9-5/8% Series due 2005 .....	40,000,000	None
6% Series due 1985 .....	7,000,000	None
7-3/4% Series due 2005 .....	12,500,000	None
8-3/8% Series due 2006 .....	25,000,000	None
8-1/2% Series due 2007 .....	25,000,000	None
6% Series due 2007 .....	10,000,000	None

Series -----	Principal Amount Issued -----	Principal Amount Outstanding -----
5-7/8% Series due 2007 .....	21,940,000	None
8-7/8% Series due 2008 .....	30,000,000	None
6.80% Series due 2004 .....	14,500,000	None
16-1/4% Series due 1987 .....	30,000,000	None
6-1/2% Series due 1983 .....	15,000,000	None
7-1/4% Series due 1983 .....	25,500,000	None
14-7/8% Series due 1987-1991 .....	30,000,000	None
16% Series due 1996 .....	25,000,000	None
15-3/4% Series due 1989 .....	40,000,000	None
13-1/2% Series due 1989 .....	100,000,000	None
14.05% Series due 1991 .....	30,000,000	None
14-1/8% Series due 1991 .....	20,000,000	None
10-7/8% Series due 1987 .....	30,000,000	None
9-3/4% Series due 2016 .....	50,000,000	None
7.00% Series A due 2031 .....	18,900,000	18,900,000
7.00% Series B due 2031 .....	308,600,000	308,600,000
7.60% Series due 2003 .....	135,000,000	None
6-1/2% Series due 2005 .....	65,000,000	65,000,000
6.20% Series due 2006 .....	100,000,000	100,000,000
5.10% Series due 2023 .....	13,982,500	13,492,500
7-1/2% Series A due 2032 .....	14,500,000	14,500,000
7-1/2% Series B due 2027 .....	21,940,000	21,940,000
7-1/2% Series C due 2032 .....	10,000,000	10,000,000
9-1/2% Series due 2003 .....	600,000,000	None

hereinafter sometimes called Bonds of the First through Fortieth Series; and

Whereas, Section 8 of the Mortgage provides that the form of each series of bonds (other than the First Series) issued thereunder and of the coupons to be attached to the coupon bonds of such series shall be established by Resolution of the Board of Directors of the Company and that the form of such series, as established by said Board of Directors, shall specify the descriptive title of the bonds and various other terms thereof, and may also contain such provisions not inconsistent with the provisions of the Mortgage as the Board of Directors may, in its discretion, cause to be inserted therein expressing or referring to the terms and conditions upon which such bonds are to be issued and/or secured under the Mortgage; and

Whereas, Section 120 of the Mortgage provides, among other things, that any power, privilege or right expressly or impliedly reserved to or in any way conferred upon the Company by any provision of the Mortgage whether such power, privilege or right is in any way restricted or is unrestricted, may be in whole or in part waived or surrendered or subjected to any restriction if at the time unrestricted or to additional restriction if already restricted, and the Company may enter into any further

covenants, limitations or restrictions for the benefit of any one or more series of bonds issued thereunder, or the Company may cure any ambiguity contained therein or in any supplemental indenture, or may establish the terms and provisions of any series of bonds other than said First Series, by an instrument in writing executed and acknowledged by the Company in such manner as would be necessary to entitle a conveyance of real estate to record in all of the states in which any property at the time subject to the lien of the Mortgage shall be situated; and

Whereas, the Company now desires to create a new series of bonds; and

Whereas, the execution and delivery by the Company of this Forty-first Supplemental Indenture, and the terms of the Bonds of the 2005 Series, hereinafter referred to, have been duly authorized by the Board of Directors of the Company by appropriate Resolutions of said Board of Directors;

Now, Therefore, This Indenture Witnesseth:

That Kansas Gas and Electric Company, in consideration of the premises and of One Dollar (\$1) to it duly paid by the Trustees at or before the ensembling and delivery of these presents, the receipt whereof is hereby acknowledged, and in further evidence of assurance of the estate, title and rights of the Trustees and in order further to secure the payment both of the principal of and interest and premium, if any, on the bonds from time to time issued under the Mortgage, according to their tenor and effect and the performance of all the provisions of the Mortgage (including any instruments supplemental thereto and any modification made as in the Mortgage provided) and of said bonds, hereby grants, bargains, sells, releases, conveys, assigns, transfers, mortgages, pledges, sets over and confirms (subject, however, to Excepted Encumbrances as defined in Section 6 of the Mortgage) unto BNY Midwest Trust Company and to Judith L. Bartolini, as Trustees under the Mortgage, and to their successor or successors in said trust, and to said Trustees and their successors and assigns forever, all property, real, personal and mixed, acquired by the Company after the date of the execution and delivery of the Mortgage, in addition to property covered by the First through the Fortieth Supplemental Indentures (except any herein or in the Mortgage, as heretofore supplemented, expressly excepted), now owned or, subject to the provisions of Section 87 of the Mortgage, hereafter acquired by the Company and wheresoever situated, including (without in anywise limiting or impairing by the enumeration of the same the scope and intent of the foregoing or of any general description contained in this Forty-first Supplemental Indenture) all lands, flowage rights, water rights, flumes, raceways, dams, rights of way and roads; all steam and power houses, gas plants, street lighting systems, standards and other equipment incidental thereto, telephone, radio and television systems, air-conditioning systems and equipment incidental thereto, water works, steam heat and hot water plants, lines, service and supply systems, bridges, culverts, tracks, rolling stock, ice or refrigeration plants and equipment, street and interurban railway systems, offices, buildings and other structures and the equipment thereof; all machinery, engines, boilers, dynamos, electric and gas machines, regulators, meters, transformers, generators, motors, electrical, gas and mechanical appliances, conduits, cables, water, steam heat, gas or other pipes, gas mains and pipes, service pipes, fittings, valves and connections, pole and transmission lines, wires, cables, tools, implements, apparatus, furniture, chattels and chooses in action; all municipal and other franchises; all lines for the transmission and distribution of electric current, gas, steam heat or water for any purpose, including poles, wires, cables, pipes, conduits, ducts and all apparatus for use in connection therewith; all real estate, lands, easements, servitudes, licenses,

permits, franchises, privileges, rights of way and other rights in or relating to real estate or the occupancy of the same and (except as herein or in the Mortgage, as heretofore supplemented, expressly excepted), all the right, title and interest of the Company in and to all other property of any kind or nature appertaining to and/or used and/or occupied and/or enjoyed in connection with any property hereinbefore or in the Mortgage, as heretofore supplemented, described.

TOGETHER WITH all and singular the tenements, hereditaments and appurtenances belonging or in anywise appertaining to the aforesaid property or any part thereof, with the reversion and reversions, remainder and remainders and (subject to the provisions of Section 57 of the Mortgage) the tolls, rents, revenues, issues, earnings, income, product and profits thereof, and all the estate, right, title and interest and claim whatsoever, at law as well as 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.

IT IS HEREBY AGREED by the Company that, subject to the provisions of Section 87 of the Mortgage, all the property, rights and franchises acquired by the Company after the date hereof (except any herein or in the Mortgage, as heretofore supplemented, expressly excepted), shall be as fully embraced within the lien hereof and the lien of the Mortgage, as if such property, rights and franchises were now owned by the Company and were specifically described herein and conveyed hereby.

PROVIDED that the following are not and are not intended to be now or hereafter granted, bargained, sold, released, conveyed, assigned, transferred, mortgaged, pledged, set over or confirmed hereunder and are hereby expressly excepted from the lien and operation of this Forty-first Supplemental Indenture and from the lien and operation of the Mortgage, viz.: (1) cash, shares of stock and obligations (including bonds, notes and other securities) not hereafter specifically pledged, paid, deposited or delivered under the Mortgage or covenanted so to be; (2) merchandise, equipment, materials or supplies held for the purpose of sale in the usual course of business and fuel, oil and similar materials and supplies consumable in the operation of any properties of the Company; vehicles and automobiles; (3) bills, notes and accounts receivable, and all contracts, leases and operating agreements not specifically pledged under the Mortgage or covenanted so to be; and (4) electric energy, and other materials or products generated, manufactured, produced or purchased by the Company for sale, distribution or use in the ordinary course of its business; provided, however, that the property and rights expressly excepted from the lien and operation of the Mortgage and this Forty-first Supplemental Indenture in the above subdivisions (2) and (3) shall (to the extent permitted by law) cease to be so excepted in the event that either or both of the Trustees or a receiver or trustee shall enter upon and take possession of the Mortgaged and Pledged Property in the manner provided in Article XII of the Mortgage by reason of the occurrence of a Default as defined in said Article XII.

THERE is expressly excepted from the lien of the Mortgage and from the lien hereof all property of the Company located in the State of Missouri now owned or hereafter acquired unless such property in the State of Missouri shall be subjected to the lien of the Mortgage by an indenture or indentures supplemental thereto, pursuant to authorization by the Board of Directors of the Company.



TO HAVE AND TO HOLD all such properties, real, personal and mixed, granted, bargained, sold, released, conveyed, assigned, transferred, mortgaged, pledged, set over or confirmed by the Company as aforesaid, or intended so to be, unto the Trustees, their successors and assigns forever.

IN TRUST NEVERTHELESS, for the same purposes and upon the same terms, trusts and conditions and subject to and with the same provisos and covenants as are set forth in the Mortgage, as supplemented, this Forty-first Supplemental Indenture being supplemental thereto.

AND IT IS HEREBY COVENANTED by the Company that all the terms, conditions, provisos, covenants and provisions contained in the Mortgage, as supplemented, shall affect and apply to the property hereinbefore described and conveyed and to the estate, rights, obligations and duties of the Company and Trustees and the beneficiaries of the trust with respect to said property, and to the Trustees and their successors as Trustees of said property in the same manner and with the same effect as if the said property had been owned by the Company at the time of the execution of the Mortgage, and had been specifically and at length described in and conveyed to the Trustees by the Mortgage as a part of the property therein stated to be conveyed.

The Company further covenants and agrees to and with the Trustees and their successors in said trust under the Mortgage, as follows:

#### ARTICLE I

##### 2005 SERIES OF BONDS

-----

SECTION 1. (I) There shall be a series of bonds designated 8% Series due 2005 (herein sometimes referred to as the "Bonds of the 2005 Series"), each of which shall also bear the descriptive title, First Mortgage Bond, and the form thereof, which is established by Resolution of the Board of Directors of the Company, shall contain suitable provisions with respect to the matters hereinafter in this Article I specified. Bonds of the 2005 Series shall be limited to \$735,000,000 in aggregate principal amount, except as provided in Section 16 of the Mortgage, shall mature on June 6, 2005, and shall be issued as fully registered bonds in denominations of Five Thousand Dollars and in any multiple or multiples of Five Thousand Dollars. Bonds of the 2005 Series shall bear interest at the rate of eight percent (8%) per annum payable (subject to the second paragraph of Section 1(III)) on the interest payment dates for the Loans (as defined below). Every Bond of the 2005 Series shall bear interest from each interest payment date for the Loans next preceding the date thereof, unless no interest has been paid on this Bond in which case from June 6, 2002. The principal of and interest on Bonds of the 2005 Series shall be payable at the office or agency of the Company in the Borough of Manhattan, City of New York, in such coin or currency of the United States of America as at the time of payment is legal tender for public and private debts. Bonds of the 2005 Series shall be dated as in Section 10 of the Mortgage provided.

(II) Bonds of the 2005 Series are redeemable prior to maturity only upon demand therefor by the Collateral Agent. To effect the redemption of Bonds of the 2005 Series, the Collateral Agent shall deliver to the Trustee (and deliver a copy thereof to the Company) a written demand (hereinafter

referred to as a "Redemption Demand") for the redemption of Bonds of the 2005 Series, signed by an authorized officer and dated the date of its delivery to the Corporate Trustee, stating (i) that an Event of Default (as defined in the Collateral Agreement) has occurred and is continuing, (ii) that there are not sufficient available funds held by the Collateral Agent pursuant to the Collateral Agreement to make all payments required as a result of such Event of Default, (iii) the amount of funds, in addition to available funds held by the Collateral Agent pursuant to the Collateral Agreement, required to make such payments, and (iv) the principal amount of Bonds of the 2005 Series the Collateral Agent demands to have redeemed and the redemption date therefor which date should be at least thirty-one (31) days after the date of such Redemption Demand (provided, such principal amount shall not exceed the amount of funds specified pursuant to the foregoing clause (iii)). The Trustee may conclusively presume the statements contained in the Redemption Demand to be correct. Redemption of Bonds of the 2005 Series shall in all cases be at a price equal to the principal amount of the Bonds to be redeemed together with accrued interest to the redemption date, and such amount shall become and be due and payable on the redemption date.

The Company hereby covenants that if a Redemption Demand shall be delivered to the Corporate Trustee, the Company will deposit, on or before the redemption date, with the Corporate Trustee, in accordance with Article X of the Mortgage, an amount in cash sufficient to redeem the Bonds of the 2005 Series so called for redemption.

(III) All Bonds of the 2005 Series shall be issued and pledged by the Company to the Collateral Agent pursuant to a Collateral and Guarantee Agreement dated as of June 6, 2002 among the Company, Western Resources, Inc. ("WRI") and JPMorgan Chase Bank (in such capacity, the "Collateral Agent") to secure the payment of the principal of, and up to 8% per annum of the interest on any of the loans issued pursuant to the \$735,000,000 Credit Agreement, dated as of June 6, 2002 among WRI, JPMorgan Chase Bank, as administrative agent, and the lenders party thereto, (the "Credit Agreement" and the loans thereunder are referred to collectively as the "Loans").

The obligation of the Company to make payments with respect to the principal of and interest on Bonds of the 2005 Series (including without limitation upon maturity thereof) shall be fully or partially, as the case may be, satisfied and discharged to the extent that, at the time that any such payment shall be due, the then due principal of and interest on the Loans shall have been fully or partially paid, or there shall be held by the Collateral Agent pursuant to the Collateral Agreement sufficient available funds to fully or partially pay the then due principal of and interest on the Loans. Notwithstanding any other provisions of this Supplemental Indenture or the Mortgage, interest on the Bonds of the 2005 Series shall be deemed fully or partially satisfied and discharged as provided herein even if the interest rate on Bonds of the 2005 Series may be higher or lower than the interest rate on any of the Loans at the time interest on any such Loans is paid. The Corporate Trustee may conclusively presume that the obligation of the Company to make payments with respect to the principal of and interest on Bonds of the 2005 Series shall have been fully satisfied and discharged unless and until the Corporate Trustee shall have received a written notice from the Collateral Agent, signed by an authorized officer, stating (i) that timely payment of the principal of or interest on the Loans required to be made by the Company has not been made, (ii) that there are not sufficient available funds held by the Collateral Agent pursuant to the Collateral Agreement to make such payment and (iii) the amount of

funds, in addition to available funds held by the Collateral Agent pursuant to the Collateral Agreement, required to make such payment.

(IV) At the option of the registered owner, any Bonds of the 2005 Series, upon surrender thereof, for cancellation, at the office or agency of the Company in the Borough of Manhattan, City of New York, shall be exchangeable for a like aggregate principal amount of bonds of the same series of other authorized denominations. The Bonds of the 2005 Series may bear such legends as may be necessary to comply with any law or with any rules or regulations made pursuant thereto or with the rules or regulations of any stock exchange or to conform to usage with respect thereto.

(V) Bonds of the 2005 Series shall be transferable upon the surrender thereof, for cancellation together with a written instrument of transfer in form approved by the registrar duly executed by the registered owner or by his duly authorized attorney, at the office or agency of the Company in the Borough of Manhattan, City of New York.

## ARTICLE II

### MISCELLANEOUS PROVISIONS

SECTION 1. All Bonds of the 2005 Series acquired by the Company shall forthwith be delivered to the Corporate Trustee for cancellation.

SECTION 2. Subject to the amendments provided for in this Forty-first Supplemental Indenture, the terms defined in the Mortgage, as heretofore supplemented, shall, for all purposes of this Forty-first Supplemental Indenture, have the meanings specified in the Mortgage, as heretofore supplemented.

SECTION 3. The Trustees hereby accept the trusts herein declared, provided, created or supplemented and agree to perform the same upon the terms and conditions set forth herein and in the Mortgage, as heretofore amended and supplemented, and upon the following terms and conditions:

The Trustees shall not be responsible in any manner whatsoever for or in respect of the validity or sufficiency of this Forty-first 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 XVI of the Mortgage, as heretofore amended and supplemented, shall apply to and form part of this Forty-first 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 Forty-first Supplemental Indenture.

SECTION 4. Subject to the provisions of Article XV and Article XVI of the Mortgage, as heretofore amended and supplemented, whenever in this Forty-first Supplemental Indenture any of the parties hereto is named or referred to, this shall be deemed to include the successors or assigns of such party, and all the covenants and agreements in this Forty-first Supplemental Indenture contained by or

on behalf of the Company or by or on behalf of the Trustees shall bind and inure to the benefit of the respective successors and assigns of such parties whether so expressed or not.

SECTION 5. Nothing in this Forty-first 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 Mortgage, any right, remedy or claim under or by reason of this Forty-first Supplemental Indenture or any covenant, condition, stipulation, promise or agreement hereof, and all the covenants, conditions, stipulations, promises and agreements in this Forty-first Supplemental Indenture contained by or 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 Mortgage.

SECTION 6. The Company reserves the right, subject to appropriate corporate action, but without any consent or other action by holders of Bonds of the 2005 Series, or of any subsequent series of bonds, to make such amendments to the Mortgage, as supplemented, as shall be necessary in order to (A) permit the issuance of additional Prior Lien Bonds other than to the Corporate Trustee (i) in a principal amount not to exceed the principal amount of Bonds which could then be issued on the basis of Property Additions under the Mortgage or (ii) upon the redemption or retirement of Prior Lien Bonds secured by such Prior Lien, (B) to remove the requirement that Prior Lien Bonds be issued to the Corporate Trustee, (C) remove the provisions of Article V which eliminate from the calculation of unfunded net Property Additions available for issuance of Bonds the amount of any Property Additions subject to a Prior Lien if the aggregate amount of Outstanding Prior Lien Bonds is 15% or more of the sum of the Outstanding Bonds and Prior Lien Bonds, and (D) make such other amendments to the Mortgage as may be necessary or desirable in the opinion of the Company to effect the foregoing.

SECTION 7. This Forty-first Supplemental Indenture shall be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

IN WITNESS WHEREOF, KANSAS GAS AND ELECTRIC COMPANY has caused its corporate name to be hereunto affixed, and this instrument to be signed and sealed by Paul R. Geist, its Vice President and Treasurer, and its corporate seal to be attested by Larry D. Irick, its Secretary for and in its behalf, BNY MIDWEST TRUST COMPANY has caused its corporate name to be hereunto affixed, and this instrument to be signed and sealed by D.G. Donovan, its Assistant Vice President, and its corporate seal to be attested by C. Potter, one of its Assistant Secretaries for and in its behalf, and Judith L. Bartolini has hereunto set her hand, all as of the day and year first above written.

KANSAS GAS AND ELECTRIC COMPANY

By: /s/ Paul R. Geist  
-----  
Paul R. Geist  
Vice President and Treasurer

Attest:

/s/ Larry D. Irick  
-----  
Larry D. Irick  
Secretary

Executed, sealed and delivered by  
KANSAS GAS AND ELECTRIC COMPANY,  
in the presence of:

/s/ Peggy S. Wettengel  
-----  
Peggy S. Wettengel

/s/ Kathy J. Beach  
-----  
Kathy J. Beach

BNY MIDWEST TRUST COMPANY, as  
Trustee

By: /s/ D.G. Donovan  
-----

Vice President

Attest:

/s/ C. Potter  
-----  
Assistant Secretary

/s/ Judith L. Bartolini  
-----  
(Judith L. Bartolini)

Executed, sealed and delivered by  
BNY MIDWEST TRUST COMPANY  
and JUDITH L. BARTOLINI, in the  
presence of:

/s/ Hernandez A. Hernandez  
-----

/s/ K. Gibson  
-----

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

BE IT REMEMBERED, that on this 6th day of June, A.D. 2002, before me, the undersigned, a Notary Public within and for the County and State aforesaid, came Paul R. Geist, the Vice President and Treasurer of KANSAS GAS AND ELECTRIC COMPANY, a corporation duly organized, incorporated and existing under the laws of the State of Kansas, who is personally known to me to be such officer, and who is personally known to me to be the same person who executed, as such officer, the within instrument of writing, and such person duly acknowledged the execution of the same to be the act and deed of said corporation and that said instrument of writing was so executed by order of the Board of Directors of said corporation.

On this 6th day of June, 2002, before me appeared Larry D. Irick, to me personally known, who being by me duly sworn did say that he is the Secretary of KANSAS GAS AND ELECTRIC COMPANY, and that the seal affixed to the foregoing instrument is the corporate seal of said corporation, and that said instrument was signed and sealed in behalf of said corporation by authority of its Board of Directors, and said Larry D. Irick acknowledged said instrument to be the free 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 above written.

/s/ Patti Beasley  
-----

NOTARY PUBLIC-- STATE OF KANSAS  
MY APPOINTMENT EXPIRES November 18, 2004

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

BE IT REMEMBERED, that on this 6thday of June, A.D. 2002, before me, the undersigned, a Notary Public within and for the County and State aforesaid, came D.G. Donovan, an Assistant Vice President of BNY Midwest Trust Company, a corporation, duly organized, incorporated and existing under the laws of the State of Illinois, who is personally known to me to be such officer, and who is personally known to me to be the same person who executed, as such officer, the within instrument of writing, and such person duly acknowledged the execution of the same to be the act and deed of said corporation and that said instrument of writing was so executed by authority of the Board of Directors of said corporation.

On this 6thday of June, 2002, before me personally came C. Potter, to me known, who being by me duly sworn did depose and say that she is an Assistant Vice President of BNY MIDWEST TRUST COMPANY, one of the corporations described in and which executed the above instrument; that she knows the seal of said corporation; that the seal affixed to said instrument is such corporate seal; that it was so affixed by authority of the Board of Directors of said corporation, and that she signed her name thereto by like authority.

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

/s/ Linda Ellen Garcia  
-----  
NOTARY PUBLIC, STATE OF ILLINOIS  
NO.  
QUALIFIED IN COOK COUNTY  
COMMISSION EXPIRES



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

On this 6thday of June in the year 2002, before me, the undersigned, a Notary Public in and for the State of Illinois, in the County of Cook, personally appeared and came Judith L. Bartolini, Individual Trustee to me known and known to me to be the person described in and who executed the within and foregoing instrument and whose name is subscribed thereto and acknowledged to me that he executed the same.

IN WITNESS WHEREOF, I have hereunto subscribed my name and affixed my official seal the day and year in this certificate first above written.

/s/ Linda Ellen Garcia  
-----

NOTARY PUBLIC, STATE OF ILLINOIS  
NO.  
QUALIFIED IN COOK COUNTY  
COMMISSION EXPIRES

AMENDMENT TO EMPLOYMENT AGREEMENT  
-----

THIS AGREEMENT is entered into as of April 1, 2002, by and between Westar Energy, Inc. (formerly named Western Resources, Inc.), a Kansas corporation (the "Company") and David C. Wittig ("Executive").

W I T N E S S E T H  
- - - - -

WHEREAS, the Company and Executive entered into an Employment Agreement (the "Employment Agreement") effective as of September 19, 2000; and

WHEREAS, the Company, as a cost-saving measure, has taken action to reduce Executive's base salary, notwithstanding the provisions of the Employment Agreement precluding such reduction; and

WHEREAS, Executive is willing to accept such reduction in base salary provided the Company agrees to the terms of this Amendment to the Employment Agreement; and

WHEREAS, as an inducement to Executive to accept such reduction in base salary, the Company is willing to agree to the terms of this Amendment to the Employment Agreement;

NOW, THEREFORE, the Company and Executive hereby agree as follows:

1. Executive agrees to accept the reduction in his base salary pursuant to the resolution approved by the Board of Directors of the Company on December 5, 2001.

2. The Company agrees that the benefits to which Executive is entitled under the Employment Agreement and under the Company's other employee benefit plans, programs, arrangements, and agreements, including without limitation the annual incentive bonus and the Company's Executive Salary Continuation Plan, shall be computed as if Executive's base salary had not been reduced.

3. Except as modified above, the Employment Agreement remains in full force and effect.

IN WITNESS WHEREOF, the Company has caused this Agreement to be executed by a duly authorized officer of the Company and Executive has executed this Agreement as of the day and year first above written.

WESTAR ENERGY, INC.

By: /s/ Paul R. Geist

-----

Paul R. Geist  
Senior Vice President and  
Chief Financial Officer

/s/ David C. Wittig

-----

David C. Wittig

AMENDMENT TO EMPLOYMENT AGREEMENT  
-----

THIS AGREEMENT is entered into as of April 1, 2002, by and between Westar Energy, Inc. (formerly named Western Resources, Inc.), a Kansas corporation (the "Company") and Douglas T. Lake ("Executive").

W I T N E S S E T H  
- - - - -

WHEREAS, the Company and Executive entered into an Employment Agreement (the "Employment Agreement") effective as of September 19, 2000; and

WHEREAS, the Company, as a cost-saving measure, has taken action to reduce Executive's base salary, notwithstanding the provisions of the Employment Agreement precluding such reduction; and

WHEREAS, Executive is willing to accept such reduction in base salary provided the Company agrees to the terms of this Amendment to the Employment Agreement; and

WHEREAS, as an inducement to Executive to accept such reduction in base salary, the Company is willing to agree to the terms of this Amendment to the Employment Agreement;

NOW, THEREFORE, the Company and Executive hereby agree as follows:

1. Executive agrees to accept the reduction in his base salary pursuant to the resolution approved by the Board of Directors of the Company on December 5, 2001.

2. The Company agrees that the benefits to which Executive is entitled under the Employment Agreement and under the Company's other employee benefit plans, programs, arrangements, and agreements, including without limitation the annual incentive bonus and the Company's Executive Salary Continuation Plan, shall be computed as if Executive's base salary had not been reduced.

3. Except as modified above, the Employment Agreement remains in full force and effect.

IN WITNESS WHEREOF, the Company has caused this Agreement to be executed by a duly authorized officer of the Company and Executive has executed this Agreement as of the day and year first above written.

WESTAR ENERGY, INC.

By: /s/ Paul R. Geist

-----  
Paul R. Geist  
Senior Vice President and  
Chief Financial Officer

/s/ Douglas T. Lake

-----  
Douglas T. Lake

=====

CREDIT AGREEMENT

among

WESTERN RESOURCES, INC.,  
as Borrower,

The Several Lenders  
from Time to Time Parties Hereto,

JPMORGAN CHASE BANK,  
as Administrative Agent,

CITIBANK, N.A.,  
as Syndication Agent,

and

BANK OF AMERICA, N.A.,  
as Documentation Agent

Dated as of June 6, 2002

=====

J.P. MORGAN SECURITIES, INC., as Advisor, Lead Arranger and Sole Bookrunner

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EXHIBITS:

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A	Form of Closing Certificate
B	Form of Assignment and Assumption
C	Form of Exemption Certificate
D	Form of Addendum
E-1	Form of New Revolving Lender Supplement
E-2	Form of Increased Facility Activation Notice

CREDIT AGREEMENT (this "Agreement"), dated as of June 6, 2002, among  
-----  
WESTERN RESOURCES, INC., a Kansas corporation (the "Borrower"), the several  
-----  
banks and other financial institutions or entities from time to time parties to  
this Agreement (the "Lenders"), JPMorgan CHASE BANK, as administrative agent,  
-----  
CITIBANK, N.A., as syndication agent (in such capacity, the "Syndication  
-----  
Agent"), and BANK OF AMERICA, N.A., as documentation agent (in such capacity,  
-----  
the "Documentation Agent").

The parties hereto hereby agree as follows:

#### SECTION 1. DEFINITIONS

1.1. Defined Terms. As used in this Agreement, the terms listed in this  
-----  
Section 1.1 shall have the respective meanings set forth in this Section 1.1.

"ABR": for any day, a rate per annum (rounded upwards, if necessary, to  
---  
the next 1/100 of 1%) equal to the greatest of (a) the Prime Rate in effect on  
such day, (b) the Base CD Rate in effect on such day plus 1% and (c) the Federal  
Funds Effective Rate in effect on such day plus 1/2 of 1%. For purposes hereof:  
"Prime Rate" shall mean the rate of interest per annum publicly announced from  
-----  
time to time by JPMorgan Chase Bank as its prime rate in effect at its principal  
office in New York City (the Prime Rate not being intended to be the lowest rate  
of interest charged by JPMorgan Chase Bank in connection with extensions of  
credit to debtors); "Base CD Rate" shall mean the sum of (a) the product of (i)  
-----  
the Three-Month Secondary CD Rate and (ii) a fraction, the numerator of which is  
one and the denominator of which is one minus the CD Reserve Percentage and (b)  
the CD Assessment Rate; and "Three-Month Secondary CD Rate" shall mean, for any  
-----  
day, the secondary market rate for three-month certificates of deposit reported  
as being in effect on such day (or, if such day shall not be a Business Day, the  
next preceding Business Day) by the Board through the public information  
telephone line of the Federal Reserve Bank of New York (which rate will, under  
the current practices of the Board, be published in Federal Reserve Statistical  
Release H.15(519) during the week following such day), or, if such rate shall  
not be so reported on such day or such next preceding Business Day, the average  
of the secondary market quotations for three-month certificates of deposit of  
major money center banks in New York City received at approximately 10:00 A.M.,  
New York City time, on such day (or, if such day shall not be a Business Day, on  
the next preceding Business Day) by JPMorgan Chase Bank from three New York City  
negotiable certificate of deposit dealers of recognized standing selected by it.  
Any change in the ABR due to a change in the Prime Rate, the Three-Month  
Secondary CD Rate or the Federal Funds Effective Rate shall be effective as of  
the opening of business on the effective day of such change in the Prime Rate,  
the Three-Month Secondary CD Rate or the Federal Funds Effective Rate,  
respectively.

"ABR Loans": Loans the rate of interest applicable to which is based  
-----  
upon the ABR.

"Addendum": an instrument, substantially in the form of Exhibit D, by  
-----  
which a Lender becomes a party to this Agreement as of the Closing Date.

"Additional Extensions of Credit": as defined in Section 9.1.  
-----

"Administrative Agent": JPMorgan Chase Bank, together with its  
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affiliates, as the arranger of the Commitments and as the administrative agent  
for the Lenders under this Agreement and the other Loan Documents, together with  
any of its successors.

"Affiliate": as to any Person, any other Person that, directly or  
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indirectly, is in control of, is controlled by, or is under common control with,  
such Person. For purposes of this definition, "control" of a Person means the  
power, directly or indirectly, either to (a) vote 10% or more of the securities

having

ordinary voting power for the election of directors (or persons performing similar functions) of such Person or (b) direct or cause the direction of the management and policies of such Person, whether by contract or otherwise.

"Agents": the collective reference to the Administrative Agent, the

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Syndication Agent and the Documentation Agent.

"Aggregate Exposure": with respect to any Lender at any time, an amount

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equal to (a) until the Closing Date, the aggregate amount of such Lender's Commitments at such time and (b) thereafter, the sum of (i) the aggregate then unpaid principal amount of such Lender's Term Loans and (ii) the amount of such Lender's Revolving Commitment then in effect or, if the Revolving Commitments have been terminated, the amount of such Lender's Revolving Extensions of Credit then outstanding.

"Aggregate Exposure Percentage": with respect to any Lender at any

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time, the ratio (expressed as a percentage) of such Lender's Aggregate Exposure at such time to the Aggregate Exposure of all Lenders at such time.

"Agreement": as defined in the preamble hereto.

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"Applicable Margin": for any day, with respect to any ABR Loan or

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Eurodollar Loan, as the case may be, the applicable rate per annum set forth below under the caption "ABR Spread" or "Eurodollar Spread", as the case may be, based on the ratings by Moody's and S&P, respectively, applicable on such date to the Index Debt:

Level	Rating	ABR Spread	Eurodollar Spread
I	greater than or equal to BBB-/Ba1	2.00%	3.00%
II	greater than or equal to BB+/Ba2	2.25%	3.25%
III	greater than or equal to BB/Ba3	2.50%	3.50%

For purposes of the foregoing, (i) if either Moody's or S&P shall not have in effect a rating for the Index Debt (other than by reason of the circumstances referred to in the last sentence of this definition), then such rating agency shall be deemed to have established a rating in Level III, (ii) if one of the two ratings established or deemed to have been established by Moody's and S&P for the Index Debt corresponds to Level I and the other corresponds to Level II, Level II shall apply, (iii) if one of the two ratings established or deemed to have been established by Moody's and S&P for the Index Debt corresponds to Level I or Level II and the other corresponds to Level III, Level III shall apply; and (iv) if the ratings established or deemed to have been established by Moody's and S&P for the Index Debt shall be changed (other than as a result of a change in the rating system of Moody's or S&P), such change shall be effective as of the date on which it is first announced by the applicable rating agency. Each change in the Applicable Margin shall apply during the period commencing on the effective date of such change and ending on the date immediately preceding the effective date of the next such change. If the rating system of Moody's or S&P shall change, or if either such rating agency shall cease to be in the business of rating corporate debt obligations, the Borrower and the Lenders shall negotiate in good faith to amend this definition to reflect such changed rating system or the unavailability of ratings from such rating agency and, pending the effectiveness of any such amendment, the Applicable Margin shall be determined by reference to the rating most recently in effect prior to such change or cessation.

"Approved Fund": as defined in Section 9.6(b).

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"Assignee": as defined in Section 9.6(b).  
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"Assignment and Assumption": an Assignment and Assumption,  
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 substantially in the form of Exhibit B.

"Assignor": as defined in Section 9.6(b).  
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"Available Revolving Commitment": as to any Revolving Lender at any  
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 time, an amount equal to the excess, if any, of (a) such Lender's Revolving  
 Commitment then in effect over (b) such Lender's Revolving Extensions of Credit  
 then outstanding.

"Benefitted Lender": as defined in Section 9.7(a).  
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"Bond Issuance": the issuance by the Borrower on May 10, 2002 of  
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 \$365,000,000 of first mortgage bonds and \$400,000,000 of unsecured senior notes,  
 each due 2007, and the use of proceeds therefrom.

"Board": the Board of Governors of the Federal Reserve System of the  
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 United States (or any successor).

"Borrower": as defined in the preamble hereto.  
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"Borrower Indenture": the Mortgage and Deed of Trust, dated July 1,  
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 1939, between the Borrower and BNY Midwest Trust Company (as successor to Harris  
 Trust and Savings Bank), as Trustee, as amended or supplemented from time to  
 time.

"Borrowing Date": any Business Day specified by the Borrower as a date  
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 on which the Borrower requests the relevant Lenders to make Loans hereunder.

"Business": as defined in Section 3.17(b).  
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"Business Day": a day other than a Saturday, Sunday or other day on  
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 which commercial banks in New York City are authorized or required by law to  
 close, provided, that with respect to notices and determinations in connection  
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 with, and payments of principal and interest on, Eurodollar Loans, such day is  
 also a day for trading by and between banks in Dollar deposits in the interbank  
 eurodollar market.

"Capital Expenditures": for any period, with respect to any Person, the  
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 aggregate of all expenditures by such Person and its Subsidiaries for the  
 acquisition or leasing (pursuant to a capital lease) of fixed or capital assets  
 or additions to equipment (including replacements, capitalized repairs and  
 improvements during such period) that should be capitalized under GAAP on a  
 consolidated balance sheet of such Person and its Subsidiaries, other than any  
 such expenditures made with the proceeds of a condemnation or taking upon the  
 exercise of eminent domain, or with the proceeds of insurance or which will be  
 fully reimbursed by insurance.

"Capital Lease Obligations": as to any Person, the obligations of such  
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 Person to pay rent or other amounts under any lease of (or other arrangement  
 conveying the right to use) real or personal property, or a combination thereof,  
 which obligations are required to be classified and accounted for as capital  
 leases on a balance sheet of such Person under GAAP and, for the purposes of  
 this Agreement, the amount of such obligations at any time shall be the  
 capitalized amount thereof at such time determined in accordance with GAAP.

"Capital Stock": any and all shares, interests, participations or other

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equivalents (however designated) of capital stock of a corporation, any and all equivalent ownership interests in a Person (other than a corporation) and any and all warrants, rights or options to purchase any of the foregoing.

"Cash Equivalents": (a) marketable direct obligations issued by, or

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unconditionally guaranteed by, the United States Government or issued by any agency thereof and backed by the full faith and credit of the United States, in each case maturing within one year from the date of acquisition; (b) certificates of deposit, time deposits, eurodollar time deposits or overnight bank deposits having maturities of six months or less from the date of acquisition issued by any Lender or by any commercial bank organized under the laws of the United States or any state thereof having combined capital and surplus of not less than \$500,000,000; (c) commercial paper of an issuer rated at least A-1 by S&P or P-1 by Moody's, or carrying an equivalent rating by a nationally recognized rating agency, if both of the two named rating agencies cease publishing ratings of commercial paper issuers generally, and maturing within six months from the date of acquisition; (d) repurchase obligations of any Lender or of any commercial bank satisfying the requirements of clause (b) of this definition, having a term of not more than 30 days, with respect to securities issued or fully guaranteed or insured by the United States government; (e) securities with maturities of one year or less from the date of acquisition issued or fully guaranteed by any state, commonwealth or territory of the United States, by any political subdivision or taxing authority of any such state, commonwealth or territory or by any foreign government, the securities of which state, commonwealth, territory, political subdivision, taxing authority or foreign government (as the case may be) are rated at least A by S&P or A by Moody's; (f) securities with maturities of six months or less from the date of acquisition backed by standby letters of credit issued by any Lender or any commercial bank satisfying the requirements of clause (b) of this definition; (g) money market mutual or similar funds that invest exclusively in assets satisfying the requirements of clauses (a) through (f) of this definition; or (h) money market funds that (i) comply with the criteria set forth in SEC Rule 2a-7 under the Investment Company Act of 1940, as amended, (ii) are rated AAA by S&P and Aaa by Moody's and (iii) have portfolio assets of at least \$5,000,000,000.

"CD Assessment Rate": for any day as applied to any ABR Loan, the

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annual assessment rate in effect on such day that is payable by a member of the Bank Insurance Fund maintained by the Federal Deposit Insurance Corporation (the "FDIC") classified as well-capitalized and within supervisory subgroup "B" (or a comparable successor assessment risk classification) within the meaning of 12 C.F.R. ss. 327.4 (or any successor provision) to the FDIC (or any successor) for the FDIC's (or such successor's) insuring time deposits at offices of such institution in the United States.

"CD Reserve Percentage": for any day as applied to any ABR Loan, that

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percentage (expressed as a decimal) which is in effect on such day, as prescribed by the Board, for determining the maximum reserve requirement for a Depository Institution (as defined in Regulation D of the Board as in effect from time to time) in respect of new non-personal time deposits in Dollars having a maturity of 30 days or more.

"Change in Control": shall be deemed to have occurred if (a) any person

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or group (within the meaning of Rule 13d-5, as in effect on the date hereof, promulgated by the SEC under the Securities Exchange Act of 1934, as amended (the "Exchange Act")), other than Westar Industries, shall, after the date hereof, acquire beneficial ownership (within the meaning of Rule 13d-3, as in effect on the date hereof, promulgated by the SEC under the Exchange Act), of shares representing more than 20% of the aggregate ordinary voting power represented by the issued and outstanding capital stock of the Borrower or (b) a majority of the seats (other than vacant seats) on the board of directors of the Borrower shall at any time be occupied by Persons who are not Continuing Directors. Notwithstanding the

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

"CLO": as defined in Section 9.6(b).

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"Closing Date": the date on which the conditions precedent set forth in Section 4.1 shall have been satisfied, which date is June 6, 2002.

"Code": the Internal Revenue Code of 1986, as amended from time to time.

"Collateral": all property of the Loan Parties, now owned or hereafter acquired, upon which a Lien is purported to be created by any Security Document.

"Collateral Agent": JPMorgan Chase Bank, in its role as collateral agent under the KGE Collateral Agreement.

"Commitment": as to any Lender, the sum of the Term Commitment and the Revolving Commitment of such Lender.

"Commitment Fee Rate": a rate per annum equal to: (i) 1.00% for any day on which there are no Revolving Loans outstanding, (ii) 0.75% for any day on which Revolving Loans are outstanding but less than one-third of the Total Revolving Commitments are borrowed and (iii) 0.50% for any day on which Revolving Loans are outstanding but less than two-thirds of the Total Revolving Commitments are borrowed.

"Commodity Price Protection Agreement": 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.

"Commonly Controlled Entity": an entity, whether or not incorporated, that is under common control with the Borrower within the meaning of Section 4001 of ERISA or is part of a group that includes the Borrower and that is treated as a single employer under Section 414 of the Code.

"Conduit Lender": any special purpose corporation organized and administered by any Lender for the purpose of making Loans otherwise required to be made by such Lender and designated by such Lender in a written instrument, subject to the consent of the Administrative Agent and the Borrower (which consent shall not be unreasonably withheld); provided, that the designation by any Lender of a Conduit Lender shall not relieve the designating Lender of any of its obligations to fund a Loan under this Agreement if, for any reason, its Conduit Lender fails to fund any such Loan, and the designating Lender (and not the Conduit Lender) shall have the sole right and responsibility to deliver all consents and waivers required or requested under this Agreement with respect to its Conduit Lender, and provided, further, that no Conduit Lender shall (a) be entitled to receive any greater amount pursuant to Section 2.16, 2.17, 2.18 or 9.5 than the designating Lender would have been entitled to receive in respect of the extensions of credit made by such Conduit Lender or (b) be deemed to have any Commitment.

"Confidential Information Memorandum": the Confidential Information Memorandum dated May, 2002, and furnished to certain Lenders.

"Consolidated Debt to Capital Ratio" shall mean, at any date, the ratio of (i) Consolidated Total Debt to (ii) the sum of Consolidated Total Debt, Consolidated Net Worth, preferred and preference stock and Mandatorily

Redeemable Preferred Securities of the Borrower; provided, that for purposes of  
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this definition (x) Consolidated Net Worth shall not be reduced or increased as a result of the Dispositions permitted by 6.4(e) and (y) the effect on Consolidated Net Worth of any write-down or write-up reflected in the financial statements of the Borrower relating to the Borrower's equity interest in Protection One and Protection One Europe shall be excluded.

"Consolidated EBITDA": for any period, Consolidated Net Income for such

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 period plus, without duplication and to the extent reflected as a charge in the statement of such Consolidated Net Income for such period, the sum of (a) income tax expense, (b) interest expense, amortization or writeoff of debt discount and debt issuance costs and commissions, discounts and other fees and charges associated with Indebtedness (including the Loans), (c) depreciation and amortization expense, (d) amortization of intangibles (including, but not limited to, goodwill) and organization costs, (e) any extraordinary, unusual or non-recurring non-cash expenses or losses (including, whether or not otherwise includable as a separate item in the statement of such Consolidated Net Income for such period, non-cash losses on sales of assets outside of the ordinary course of business and non-recurring expenses incurred in connection with the separation of the Borrower's electric and non-electric utility businesses or the sale, merger or other disposition of the Borrower's electric utility business), and (f) any other non-cash charges (other than any non-cash charge to the extent it represents the reversal of an accrual or reserve for a potential cash item in any prior period), and minus, to the extent included in the statement of such

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 Consolidated Net Income for such period, the sum of (a) interest income, (b) any extraordinary, unusual or non-recurring income or gains (including, whether or not otherwise includable as a separate item in the statement of such Consolidated Net Income for such period, gains on the sales of assets outside of the ordinary course of business) and (c) any other non-cash income, all as determined on a consolidated basis. For the purposes of calculating Consolidated EBITDA for any period of four consecutive fiscal quarters (each, a "Reference

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 Period") pursuant to any determination of the Consolidated Leverage Ratio, (i)

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 if at any time during such Reference Period the Borrower or any Subsidiary shall have made any Material Disposition, the Consolidated EBITDA for such Reference Period shall be reduced by an amount equal to the Consolidated EBITDA (if positive) attributable to the property that is the subject of such Material Disposition for such Reference Period or increased by an amount equal to the Consolidated EBITDA (if negative) attributable thereto for such Reference Period and (ii) if during such Reference Period the Borrower or any Subsidiary shall have made a Material Acquisition, Consolidated EBITDA for such Reference Period shall be calculated after giving pro forma effect thereto as if such Material

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 Acquisition occurred on the first day of such Reference Period. As used in this definition, "Material Acquisition" means any acquisition of property or series

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 of related acquisitions of property that (a) constitutes assets comprising all or substantially all of an operating unit of a business or constitutes all or substantially all of the common stock of a Person and (b) involves the payment of consideration by the Borrower and its Subsidiaries with value in excess of \$10,000,000; and "Material Disposition" means any Disposition of property or

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 series of related Dispositions of property that yields gross proceeds to the Borrower or any of its Subsidiaries with value in excess of \$10,000,000. Notwithstanding anything to the contrary contained herein, for the fiscal quarters of the Borrower ended on December 31, 2001 and ended on March 31, 2002, there shall be added to the calculation of Consolidated EBITDA (a) up to \$36,000,000 in respect of one-time cash severance costs to the extent incurred by the Borrower and (b) up to \$25,000,000 in respect of a one-time cash charge to the extent such charge is taken by the Borrower with respect to costs incurred in connection with repairs necessitated by a January 2002 ice storm.

"Consolidated Interest Coverage Ratio": for any period, the ratio of

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 (a) Consolidated EBITDA for such period to (b) Consolidated Interest Expense for such period.

"Consolidated Interest Expense": for any period, total cash interest

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 expense (including that attributable to Capital Lease Obligations) of the Borrower and its Subsidiaries for such period with respect to all outstanding Indebtedness of the Borrower and its Subsidiaries determined on a consolidated basis (including all commissions, discounts and other fees and charges owed with

respect to letters of

credit and bankers' acceptance financing and net costs under Swap Agreements in respect of interest rates to the extent such net costs are cash costs allocable to such period), all determined in accordance with GAAP consistently applied.

"Consolidated Leverage Ratio": as at the last day of any period, the  
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 ratio of (a) Consolidated Total Debt on such day to (b) Consolidated EBITDA for such period.

"Consolidated Net Income": for any period, the consolidated net income  
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 (or loss) of the Borrower and its Subsidiaries, determined on a consolidated basis in accordance with GAAP; provided that there shall be excluded (a) the income (or deficit) of any Person accrued prior to the date it becomes a Subsidiary of the Borrower or is merged into or consolidated with the Borrower or any of its Subsidiaries, (b) the income (or deficit) of any Person (other than a Subsidiary of the Borrower) in which the Borrower or any of its Subsidiaries has an ownership interest, except to the extent that any such income is actually received by the Borrower or such Subsidiary in the form of dividends or similar distributions and (c) the undistributed earnings of any Subsidiary of the Borrower to the extent that the declaration or payment of dividends or similar distributions by such Subsidiary is not at the time permitted by the terms of any Contractual Obligation (other than under any Loan Document) or Requirement of Law applicable to such Subsidiary.

"Consolidated Net Worth" shall mean, at any date, on a consolidated  
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 basis for the Borrower and its Subsidiaries, the sum of common stock taken at par value, paid in capital and retained earnings at such date, all determined in accordance with GAAP consistently applied.

"Consolidated Total Debt": at any date, the aggregate principal amount  
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 of all Indebtedness of the Borrower and its Subsidiaries at such date, determined on a consolidated basis in accordance with GAAP consistently applied; provided that Consolidated Total Debt shall not include any Mandatorily Redeemable Preferred Securities or the Guarantee Obligations related thereto.

"Continuing Directors": members of the board of directors of the  
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 Borrower who (i) were directors on the date hereof, (ii) had been directors for at least two years, or (iii) were recommended or elected with the affirmative vote of a majority of the then Continuing Directors at a meeting at which at least 60 percent of the then Continuing Directors were present.

"Contractual Obligation": as to any Person, any provision of any  
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 security issued by such Person or of any agreement, instrument or other undertaking to which such Person is a party or by which it or any of its property is bound.

"Default": any of the events specified in Section 7, whether or not any  
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 requirement for the giving of notice, the lapse of time, or both, has been satisfied.

"Disposition": with respect to any property, any sale, lease, sale and  
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 leaseback, assignment, conveyance, transfer or other disposition thereof. The terms "Dispose" and "Disposed of" shall have correlative meanings.

"Documentation Agent": as defined in the preamble hereto.  
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"Dollars" and "\$": dollars in lawful currency of the United States.  
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"Environmental Laws": any and all foreign, Federal, state, local or  
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 municipal laws, rules, orders, regulations, statutes, ordinances, codes, decrees, requirements of any Governmental Authority or other Requirements of Law (including common law) regulating, relating to or imposing liability or

standards of conduct concerning protection of human health or the environment, as now or may at any time hereafter be in effect.

"ERISA": the Employee Retirement Income Security Act of 1974, as  
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 amended from time to time.

"Eurocurrency Reserve Requirements": for any day as applied to a  
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 Eurodollar Loan, the aggregate (without duplication) of the maximum rates (expressed as a decimal fraction) of reserve requirements in effect on such day (including basic, supplemental, marginal and emergency reserves) under any regulations of the Board or other Governmental Authority having jurisdiction with respect thereto dealing with reserve requirements prescribed for eurocurrency funding (currently referred to as "Eurocurrency Liabilities" in Regulation D of the Board) maintained by a member bank of the Federal Reserve System.

"Eurodollar Base Rate": with respect to each day during each Interest  
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 Period pertaining to a Eurodollar Loan, the rate per annum determined on the basis of the rate for deposits in Dollars for a period equal to such Interest Period commencing on the first day of such Interest Period appearing on Page 3750 of the Telerate screen as of 11:00 A.M., London time, two Business Days prior to the beginning of such Interest Period. In the event that such rate does not appear on Page 3750 of the Telerate screen (or otherwise on such screen), the "Eurodollar Base Rate" shall be determined by reference to such other comparable publicly available service for displaying eurodollar rates as may be selected by the Administrative Agent or, in the absence of such availability, by reference to the rate at which the Administrative Agent is offered Dollar deposits at or about 11:00 A.M., New York City time, two Business Days prior to the beginning of such Interest Period in the interbank eurodollar market where its eurodollar and foreign currency and exchange operations are then being conducted for delivery on the first day of such Interest Period for the number of days comprised therein.

"Eurodollar Loans": Loans the rate of interest applicable to which is  
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 based upon the Eurodollar Rate.

"Eurodollar Rate": with respect to each day during each Interest Period  
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 pertaining to a Eurodollar Loan, a rate per annum determined for such day in accordance with the following formula (rounded upward to the nearest 1/100th of 1%):

Eurodollar Base Rate  
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 1.00 - Eurocurrency Reserve Requirements

"Eurodollar Tranche": the collective reference to Eurodollar Loans  
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 under a particular Facility the then current Interest Periods with respect to all of which begin on the same date and end on the same later date (whether or not such Loans shall originally have been made on the same day).

"Event of Default": any of the events specified in Section 7, provided  
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 that any requirement for the giving of notice, the lapse of time, or both, has been satisfied.

"Exchange Act Documents": the annual reports of the Borrower, KGE and  
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 Protection One on Form 10-K for the fiscal year ended December 31, 2001 and all amendments thereto, the quarterly reports of the Borrower, KGE and Protection One on Form 10-Q for the fiscal quarter ended March 31, 2002, and the reports of the Borrower on Form 8-K dated April 26, 2002, May 10, 2002, May 29, 2002 and May 30, 2002.

"Existing Accounts Receivable Financing": the WR Receivables  
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Corporation Purchase and Sale Agreement, dated as of July 28, 2000, and the WR Receivables Corporation Purchase Agreement, dated as of July 28, 2000, in each case as amended from time to time; provided that (i) the Lien securing the Existing Accounts Receivable Financing is not spread to cover any additional property after the Closing Date, (ii) the amount of Indebtedness available under the Existing Accounts Receivable Financing is not increased after the Closing Date and (iii) the non-recourse nature of the Existing Accounts Receivable Financing is maintained.

"Facility": each of (a) the Term Commitments and the Term Loans made  
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thereunder (the "Term Facility") and (b) the Revolving Commitments and the extensions of credit made thereunder (the "Revolving Facility").  
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"Federal Funds Effective Rate": for any day, the weighted average of  
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the rates on overnight federal funds transactions with members of the Federal Reserve System arranged by federal funds brokers, as published on the next succeeding Business Day by the Federal Reserve Bank of New York, or, if such rate is not so published for any day that is a Business Day, the average of the quotations for the day of such transactions received by JPMorgan Chase Bank from three federal funds brokers of recognized standing selected by it.

"Fee Payment Date": (a) the third Business Day following the last day  
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of each March, June, September and December and (b) the last day of the Revolving Commitment Period.

"FERC": as defined in Section 4.1(f).  
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"Financial Officer" of any corporation shall mean the chief financial  
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officer, principal accounting officer or treasurer of such corporation.

"Five-Year Agreement": as defined in Section 3.16.  
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"Funding Office": the office of the Administrative Agent specified in  
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Section 9.2 or such other office as may be specified from time to time by the Administrative Agent as its funding office by written notice to the Borrower and the Lenders.

"GAAP": generally accepted accounting principles in the United States  
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as in effect from time to time, except that for purposes of Section 6.1, GAAP shall be determined on the basis of such principles in effect on the date hereof and consistent with those used in the preparation of the most recent audited financial statements referred to in Section 3.1(a). In the event that any "Accounting Change" (as defined below) shall occur and such change results in a change in the method of calculation of financial covenants, standards or terms in this Agreement, then the Borrower and the Administrative Agent agree to enter into negotiations in order to amend such provisions of this Agreement so as to equitably reflect such Accounting Changes with the desired result that the criteria for evaluating the Borrower's financial condition shall be the same after such Accounting Changes as if such Accounting Changes had not been made. Until such time as such an amendment shall have been executed and delivered by the Borrower, the Administrative Agent and the Required Lenders, all financial covenants, standards and terms in this Agreement shall continue to be calculated or construed as if such Accounting Changes had not occurred. "Accounting Changes" refers to changes in accounting principles required by the promulgation of any rule, regulation, pronouncement or opinion by the Financial Accounting Standards Board of the American Institute of Certified Public Accountants or, if applicable, the SEC. Notwithstanding anything in the foregoing paragraph, if any Accounting Change is in effect on the date hereof but has not been reflected in the preparation of the most recent financial statements, GAAP shall be determined in accordance with such Accounting Change.

"Governmental Authority": any nation or government, any state or other

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political subdivision thereof, any agency, authority, instrumentality, regulatory body (including, without limitation, the KCC), court, central bank or other entity exercising executive, legislative, judicial, taxing, regulatory or administrative functions of or pertaining to government, any securities exchange and any self-regulatory organization (including the National Association of Insurance Commissioners).

"Group Members": the collective reference to the Borrower and its

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Subsidiaries.

"Guarantee Obligation": as to any Person (the "guaranteeing person"),

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any obligation of (a) the guaranteeing person or (b) another Person (including any bank under any letter of credit) to induce the creation of which the guaranteeing person has issued a reimbursement, counterindemnity or similar obligation, in either case guaranteeing or in effect guaranteeing any Indebtedness, leases, dividends or other obligations (the "primary obligations")

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of any other third Person (the "primary obligor") in any manner, whether

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directly or indirectly, including any obligation of the guaranteeing person, whether or not contingent, (i) to purchase any such primary obligation or any property constituting direct or indirect security therefor, (ii) to advance or supply funds (1) for the purchase or payment of any such primary obligation or (2) to maintain working capital or equity capital of the primary obligor or otherwise to maintain the net worth or solvency of the primary obligor, (iii) to purchase property, securities or services primarily for the purpose of assuring the owner of any such primary obligation of the ability of the primary obligor to make payment of such primary obligation or (iv) otherwise to assure or hold harmless the owner of any such primary obligation against loss in respect thereof; provided, however, that the term Guarantee Obligation shall not include

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endorsements of instruments for deposit or collection in the ordinary course of business. The amount of any Guarantee Obligation of any guaranteeing person shall be deemed to be the lower of (a) an amount equal to the stated or determinable amount of the primary obligation in respect of which such Guarantee Obligation is made and (b) the maximum amount for which such guaranteeing person may be liable pursuant to the terms of the instrument embodying such Guarantee Obligation, unless such primary obligation and the maximum amount for which such guaranteeing person may be liable are not stated or determinable, in which case the amount of such Guarantee Obligation shall be such guaranteeing person's maximum reasonably anticipated liability in respect thereof as determined by the Borrower in good faith.

"Increased Facility Activation Date": any Business Day on which any

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Lender shall execute and deliver to the Administrative Agent an Increased Facility Activation Notice pursuant to Section 2.4(b).

"Increased Facility Activation Notice": a notice substantially in the

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form of Exhibit E-2.

"Increased Facility Closing Date": any Business Day designated as such

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in an Increased Facility Activation Notice.

"Indebtedness": of any Person at any date, without duplication, (a) all

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indebtedness of such Person for borrowed money, (b) all obligations of such Person for the deferred purchase price of property or services (other than current trade payables incurred in the ordinary course of such Person's business), (c) all obligations of such Person evidenced by notes, bonds, debentures or other similar instruments, (d) all indebtedness created or arising under any conditional sale or other title retention agreement with respect to property acquired by such Person (even though the rights and remedies of the seller or lender under such agreement in the event of default are limited to repossession or sale of such property), (e) all Capital Lease Obligations of such Person, (f) all obligations of such Person, contingent or otherwise, as an account party or applicant under or in respect of acceptances, letters of credit (other than letters of credit with respect to which the obligations of such

Person have been cash collateralized), surety bonds or similar arrangements, (g)  
the liquidation value of all redeemable preferred Capital Stock

of such Person, (h) all net payment obligations of such Person in respect of Swap Agreements (provided that such payment obligations shall be disregarded in determining Indebtedness for purposes of calculating the financial covenants contained in Section 6.1), (i) all Guarantee Obligations of such Person in respect of obligations of the kind referred to in clauses (a) through (h) above, and (j) all obligations of the kind referred to in clauses (a) through (i) above secured by (or for which the holder of such obligation has an existing right, contingent or otherwise, to be secured by) any Lien on property (including accounts and contract rights) owned by such Person, whether or not such Person has assumed or become liable for the payment of such obligation. The Indebtedness of any Person shall include the Indebtedness of any other entity (including any partnership in which such Person is a general partner) to the extent such Person is liable therefor as a result of such Person's ownership interest in or other relationship with such entity, except to the extent the terms of such Indebtedness expressly provide that such Person is not liable therefor.

"Indentures": the collective reference to the Borrower Indenture and  
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"Index Debt": on any date, the first mortgage bonds of the Borrower  
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outstanding on such date. the KGE Indenture.

"Insolvency": with respect to any Multiemployer Plan, the condition  
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that such Plan is insolvent within the meaning of Section 4245 of ERISA.

"Insolvent": pertaining to a condition of Insolvency.  
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"Intellectual Property": the collective reference to all rights,  
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priorities and privileges relating to intellectual property, whether arising under United States, multinational or foreign laws or otherwise, including copyrights, copyright licenses, patents, patent licenses, trademarks, trademark licenses, technology, know-how and processes, and all rights to sue at law or in equity for any infringement or other impairment thereof, including the right to receive all proceeds and damages therefrom.

"Interest Payment Date": (a) as to any ABR Loan, the last day of each  
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March, June, September and December to occur while such Loan is outstanding and the final maturity date of such Loan, (b) as to any Eurodollar Loan having an Interest Period of three months or less, the last day of such Interest Period, (c) as to any Eurodollar Loan having an Interest Period longer than three months, each day that is three months, or a whole multiple thereof, after the first day of such Interest Period and the last day of such Interest Period and (d) as to any Loan, the date of any repayment or prepayment made in respect thereof.

"Interest Period": as to any Eurodollar Loan, (a) initially, the period  
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commencing on the borrowing or conversion date, as the case may be, with respect to such Eurodollar Loan and ending one, two, three or six months thereafter, as selected by the Borrower in its notice of borrowing or notice of conversion, as the case may be, given with respect thereto; and (b) thereafter, each period commencing on the last day of the next preceding Interest Period applicable to such Eurodollar Loan and ending one, two, three or six months thereafter, as selected by the Borrower by irrevocable notice to the Administrative Agent not later than 11:00 A.M., New York City time, on the date that is three Business Days prior to the last day of the then current Interest Period with respect thereto; provided that, all of the foregoing provisions relating to Interest  
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Periods are subject to the following:

(i) if any Interest Period would otherwise end on a day that is not a Business Day, such Interest Period shall be extended to the next succeeding Business Day unless the result of



such extension would be to carry such Interest Period into another calendar month in which event such Interest Period shall end on the immediately preceding Business Day;

(ii) the Borrower may not select an Interest Period under a particular Facility that would extend beyond the Revolving Termination Date or beyond the date final payment is due on the Term Loans;

(iii) any Interest Period that begins on the last Business Day of a calendar month (or on a day for which there is no numerically corresponding day in the calendar month at the end of such Interest Period) shall end on the last Business Day of a calendar month; and

(iv) the Borrower shall select Interest Periods so as not to require a payment or prepayment of any Eurodollar Loan during an Interest Period for such Loan.

"Investments": as defined in Section 6.7.

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"KCC": as defined in Section 4.1(f).

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"KGE": Kansas Gas and Electric Company, a Kansas corporation and a

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Subsidiary.

"KGE Bonds": the 7.60% First Mortgage Bonds of KGE due December 2003.

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"KGE Collateral Agreement": the Collateral and Guarantee Agreement,

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dated as of the Closing Date, made by and between KGE with and in favor of JPMorgan Chase Bank, as collateral agent.

"KGE Indenture": the Mortgage and Deed of Trust, dated April 1, 1940,

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between KGE and BNY Midwest Trust Company, as amended or supplemented from time to time.

"Lenders": as defined in the preamble hereto; provided, that unless the

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context otherwise requires, each reference herein to the Lenders shall be deemed to include any Conduit Lender.

"Lien": any mortgage, pledge, hypothecation, assignment, deposit

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arrangement, encumbrance, lien (statutory or other), charge or other security interest or any preference, priority or other security agreement or preferential arrangement of any kind or nature whatsoever (including any conditional sale or other title retention agreement and any capital lease having substantially the same economic effect as any of the foregoing).

"Loan": as defined in Section 2.4.

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"Loan Documents": this Agreement and the Security Documents.

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"Loan Parties": each Group Member that is a party to a Loan Document.

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"Majority Facility Lenders": with respect to any Facility, the holders

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of more than 50% of the aggregate unpaid principal amount of the Term Loans or the Total Revolving Extensions of Credit, as the case may be, outstanding under such Facility (or, in the case of the Revolving Facility, prior to any termination of the Revolving Commitments, the holders of more than 50% of the Total Revolving Commitments).

"Mandatorily Redeemable Preferred Securities" shall mean the 7-7/8%

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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 Borrower and which are treated for accounting and rating agency purposes in a substantively similar manner.

"Material Adverse Effect": any event, development or circumstance that

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has had or could reasonably be expected to have a material adverse effect on (a) the Transactions, (b) the business, property, operations, condition (financial or otherwise) or prospects of the Borrower and its Significant Subsidiaries taken as a whole or (c) the validity or enforceability of this Agreement or any of the other Loan Documents or the rights or remedies of the Administrative Agent and the Lenders hereunder or thereunder.

"Materials of Environmental Concern": any gasoline or petroleum

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(including crude oil or any fraction thereof) or petroleum products or any hazardous or toxic substances, materials or wastes, defined or regulated as such in or under any Environmental Law, including asbestos, polychlorinated biphenyls and urea-formaldehyde insulation.

"Moody's": Moody's Investors Service, Inc.

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"Multiemployer Plan": a Plan that is a multiemployer plan as defined

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in Section 4001(a)(3) of ERISA.

"Net Cash Proceeds": in connection with any issuance or sale of Capital

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Stock or any incurrence of Indebtedness or any Disposition of property, the cash proceeds received from such issuance or incurrence or Disposition, net of attorneys' fees, investment banking fees, accountants' fees, underwriting discounts and commissions and other customary fees and expenses actually incurred in connection therewith.

"New Revolving Lender": as defined in Section 2.4(c).

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"New Revolving Lender Supplement": as defined in Section 2.4(c).

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"Non-Excluded Taxes": as defined in Section 2.17(a).

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"Non-U.S. Lender": as defined in Section 2.17(d).

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"Obligations": the unpaid principal of and interest on (including

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interest accruing after the maturity of the Loans and interest accruing after the filing of any petition in bankruptcy, or the commencement of any insolvency, reorganization or like proceeding, relating to the Borrower, whether or not a claim for post-filing or post-petition interest is allowed in such proceeding) the Loans and all other obligations and liabilities of the Borrower to the Administrative Agent or to any Lender (or, in the case of Specified Swap Agreements, any affiliate of any Lender), whether direct or indirect, absolute or contingent, due or to become due, or now existing or hereafter incurred, which may arise under, out of, or in connection with, this Agreement, any other Loan Document, any Specified Swap Agreement or any other document made, delivered or given in connection herewith or therewith, whether on account of principal, interest, reimbursement obligations, fees, indemnities, costs, expenses (including all fees, charges and disbursements of counsel to the Administrative Agent or to any Lender that are required to be paid by the Borrower pursuant hereto) or otherwise.

"Other Taxes": any and all present or future stamp or documentary taxes

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or any other excise or property taxes, charges or similar levies arising from any payment made hereunder or from the execution, delivery or enforcement of, or otherwise with respect to, this Agreement or any other Loan Document.

"Participant": as defined in Section 9.6(c).

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"PBGC": the Pension Benefit Guaranty Corporation established pursuant to Subtitle A of Title IV of ERISA (or any successor).

"Person": an individual, partnership, corporation, limited liability

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company, business trust, joint stock company, trust, unincorporated association, joint venture, Governmental Authority or other entity of whatever nature.

"Plan": at a particular time, any employee benefit plan that is covered

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by ERISA and in respect of which the Borrower or a Commonly Controlled Entity is (or, if such plan were terminated at such time, would under Section 4069 of ERISA be deemed to be) an "employer" as defined in Section 3(5) of ERISA.

"Pledged Bonds": as defined in the KGE Collateral Agreement.

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"Preferred Stock": any Capital Stock of a Person, however designated,

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

"Properties": as defined in Section 3.17(a).

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"Protection One": Protection One, Inc., a Delaware corporation.

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"Protection One Europe": the collective reference to Protection One

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International, Inc., a wholly-owned subsidiary of Westar Industries, and its Subsidiaries, including a French Subsidiary in which it owns an approximate 99.8% interest.

"Refinancing": as defined in Section 4.1(b).

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"Register": as defined in Section 9.6(b).

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"Regulation U": Regulation U of the Board as in effect from time to

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time.

"Reorganization": with respect to any Multiemployer Plan, the condition

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that such plan is in reorganization within the meaning of Section 4241 of ERISA.

"Reportable Event": any of the events set forth in Section 4043(c) of

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ERISA, other than those events as to which the thirty day notice period is waived under subsections .27, .28, .29, .30, .31, .32, .34 or .35 of PBGC Reg.ss. 4043.

"Required Lenders": at any time, the holders of more than 50% of (a)

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until the Closing Date, the Commitments then in effect and (b) thereafter, the sum of (i) the aggregate unpaid principal amount of the Term Loans then outstanding and (ii) the Total Revolving Commitments then in effect or, if the Revolving Commitments have been terminated, the Total Revolving Extensions of Credit then outstanding.

"Requirement of Law": as to any Person, the Certificate of

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Incorporation and By-Laws or other organizational or governing documents of such Person, and any law, treaty, rule or regulation or

determination of an arbitrator or a court or other Governmental Authority, in each case applicable to or binding upon such Person or any of its property or to which such Person or any of its property is subject.

"Responsible Officer": the chief executive officer, president or chief

financial officer of the Borrower, but in any event, with respect to financial matters, the chief financial officer of the Borrower.

"Restricted Payments": as defined in Section 6.5.

"Revolving Commitment": as to any Lender, the obligation of such

Lender, if any, to make Revolving Loans in an aggregate principal amount not to exceed the amount set forth under the heading "Revolving Commitment" opposite such Lender's name on Schedule 1.1A or in the Assignment and Assumption or New Revolving Lender Supplement pursuant to which such Lender became a party hereto, as the same may be changed from time to time pursuant to the terms hereof. The original amount of the Total Revolving Commitments is \$150,000,000.

"Revolving Commitment Period": the period from and including the

Closing Date to the Revolving Termination Date.

"Revolving Extensions of Credit": as to any Revolving Lender at any

time, an amount equal to the aggregate principal amount of all Revolving Loans held by such Lender then outstanding.

"Revolving Lender": each Lender that has a Revolving Commitment or that

holds Revolving Loans.

"Revolving Loans": as defined in Section 2.4(a).

"Revolving Percentage": as to any Revolving Lender at any time, the

percentage which such Lender's Revolving Commitment then constitutes of the Total Revolving Commitments or, at any time after the Revolving Commitments shall have expired or terminated, the percentage which the aggregate principal amount of such Lender's Revolving Loans then outstanding constitutes of the aggregate principal amount of the Revolving Loans then outstanding, provided, that, in the event that the Revolving Loans are paid in full prior to the reduction to zero of the Total Revolving Extensions of Credit, the Revolving Percentages shall be determined in a manner designed to ensure that the other outstanding Revolving Extensions of Credit shall be held by the Revolving Lenders on a comparable basis.

"Revolving Termination Date": June 6, 2005; provided that the Revolving

Termination Date shall occur on (a) the date which is 60 days prior to the scheduled maturity of the 2003 Bonds if, on or prior to such date, the Borrower has not (i) refinanced the entire amount of the 2003 Bonds such that the amounts due in respect of the Indebtedness refinancing the 2003 Bonds shall not be scheduled to become due prior to the date that is at least one year after the scheduled final maturity of the Term Loans or (ii) irrevocably deposited funds with the trustee for the 2003 Bonds as trust funds in trust for the purpose of making payments sufficient to pay in full all amounts (including, without limitation, principal, interest and premium, if any) owing in respect of the 2003 Bonds when due or (b) the date which is 60 days prior to the scheduled maturity of the 2004 Bonds if, on or prior to such date, the Borrower has not (i) refinanced the entire amount of the 2004 Bonds such that the amounts due in respect of the Indebtedness refinancing the 2004 Bonds shall not be scheduled to become due prior to the date that is at least one year after the scheduled final maturity of the Term Loans or (ii) irrevocably deposited funds with the trustee for the 2004 Bonds as trust funds in trust for the purpose of making payments sufficient to

pay in full all amounts (including, without limitation, principal, interest and premium, if any) owing in respect of the 2004 Bonds when due.

"S&P": Standard & Poor's Ratings Services, a division of the McGraw  
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 Hill Companies, Inc.

"SEC": the Securities and Exchange Commission, any successor thereto  
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 and any analogous Governmental Authority.

"Security Documents": the collective reference to the KGE Collateral  
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 Agreement and all other security documents hereafter delivered to the  
 Administrative Agent granting a Lien on any property of any Person to secure the  
 obligations and liabilities of any Loan Party under any Loan Document.

"Significant Subsidiary": at any time, any Subsidiary (other than  
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 Protection One and its direct and indirect Subsidiaries) which at such time  
 shall be a significant subsidiary of the Borrower within the meaning of  
 Regulation S-X of the SEC as in effect on the date hereof, and, in any event,  
 KGE.

"Single Employer Plan": any Plan that is covered by Title IV of ERISA,  
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 but that is not a Multiemployer Plan.

"Solvent": when used with respect to any Person, means that, as of any  
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 date of determination, (a) the amount of the "present fair saleable value" of  
 the assets of such Person will, as of such date, exceed the amount of all  
 "liabilities of such Person, contingent or otherwise", as of such date, as such  
 quoted terms are determined in accordance with applicable federal and state laws  
 governing determinations of the insolvency of debtors, (b) the present fair  
 saleable value of the assets of such Person will, as of such date, be greater  
 than the amount that will be required to pay the liability of such Person on its  
 debts as such debts become absolute and matured, (c) such Person will not have,  
 as of such date, an unreasonably small amount of capital with which to conduct  
 its business, and (d) such Person will be able to pay its debts as they mature.  
 For purposes of this definition, (i) "debt" means liability on a "claim", and  
 (ii) "claim" means any (x) right to payment, whether or not such a right is  
 reduced to judgment, liquidated, unliquidated, fixed, contingent, matured,  
 unmatured, disputed, undisputed, legal, equitable, secured or unsecured or (y)  
 right to an equitable remedy for breach of performance if such breach gives rise  
 to a right to payment, whether or not such right to an equitable remedy is  
 reduced to judgment, fixed, contingent, matured or unmatured, disputed,  
 undisputed, secured or unsecured.

"Specified Swap Agreement": any Swap Agreement (a) entered into by the  
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 Borrower and any Lender or affiliate thereof in respect of interest rates and  
 (b) that has been designated by the relevant Lender and the Borrower, by written  
 notice to the Administrative Agent, as a Specified Swap Agreement. The  
 designation of any Swap Agreement as a Specified Swap Agreement shall not create  
 in favor of such Lender or affiliate thereof any rights in connection with the  
 management or release of any Collateral.

"Subsidiary": as to any Person, a corporation, partnership, limited  
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 liability company or other entity of which shares of stock or other ownership  
 interests having ordinary voting power (other than stock or such other ownership  
 interests having such power only by reason of the happening of a contingency) to  
 elect a majority of the board of directors or other managers of such  
 corporation, partnership or other entity are at the time owned, or the  
 management of which is otherwise controlled, directly or indirectly through one  
 or more intermediaries, or both, by such Person. Unless otherwise qualified, all  
 references to a "Subsidiary" or to "Subsidiaries" in this Agreement shall refer  
 to a Subsidiary or Subsidiaries of the Borrower.

"Supermajority Lenders": at any time, the holders of at least 66-2/3%

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of (a) until the Closing Date, the Commitments then in effect and (b) thereafter, the sum of (i) the aggregate unpaid principal amount of the Term Loans then outstanding and (ii) the Total Revolving Commitments then in effect or, if the Revolving Commitments have been terminated, the Total Revolving Extensions of Credit then outstanding.

"Swap Agreement": any agreement with respect to any swap, forward,

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future or derivative transaction or option or similar agreement involving, or settled by reference to, one or more rates, currencies, commodities, equity or debt instruments or securities, or economic, financial or pricing indices or measures of economic, financial or pricing risk or value or any similar transaction or any combination of these transactions; provided that no (a) phantom stock or similar plan providing for payments only on account of services provided by current or former directors, officers, employees or consultants of the Borrower or any of its Subsidiaries or (b) Commodity Price Protection Agreement shall be a "Swap Agreement".

"Term Commitment": as to any Lender, the obligation of such Lender, if

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any, to make a Term Loan to the Borrower in a principal amount not to exceed the amount set forth under the heading "Term Commitment" opposite such Lender's name on Schedule 1.1A. The original aggregate amount of the Term Commitments is \$585,000,000.

"Term Lender": each Lender that has a Term Commitment or that holds a

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Term Loan.

"Term Loan": as defined in Section 2.1.

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"Term Percentage": as to any Term Lender at any time, the percentage

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which such Lender's Term Commitment then constitutes of the aggregate Term Commitments (or, at any time after the Closing Date, the percentage which the aggregate principal amount of such Lender's Term Loans then outstanding constitutes of the aggregate principal amount of the Term Loans then outstanding).

"Total Revolving Commitments": at any time, the aggregate amount of the

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Revolving Commitments then in effect.

"Total Revolving Extensions of Credit": at any time, the aggregate

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amount of the Revolving Extensions of Credit of the Revolving Lenders outstanding at such time.

"Transferee": any Assignee or Participant.

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"2003 Bonds": the 6.25% Senior Unsecured Notes of the Borrower due

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August 2018, which can be put and called in August 2003.

"2004 Bonds": the 6.875% Senior Unsecured Notes of the Borrower due

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August 2004.

"Transactions": the collective reference to the making of the financing

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contemplated by this Agreement, the granting of the security interest and the making of the guarantee pursuant to the KGE Collateral Agreement, the Refinancing and the Bond Issuance.

"Type": as to any Loan, its nature as an ABR Loan or a Eurodollar Loan.

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"United States": the United States of America.

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"Westar Industries": Westar Industries, Inc., a Delaware corporation.

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"Wholly Owned Subsidiary": as to any Person, any other Person all of

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the Capital Stock of which (other than directors' qualifying shares required by law) is owned by such Person directly and/or through other Wholly Owned Subsidiaries.

1.2. Other Definitional Provisions. (a) Unless otherwise specified

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therein, all terms defined in this Agreement shall have the defined meanings when used in the other Loan Documents or any certificate or other document made or delivered pursuant hereto or thereto.

(b) As used herein and in the other Loan Documents, and any certificate or other document made or delivered pursuant hereto or thereto, (i) accounting terms relating to any Group Member not defined in Section 1.1 and accounting terms partly defined in Section 1.1, to the extent not defined, shall have the respective meanings given to them under GAAP, (ii) the words "include", "includes" and "including" shall be deemed to be followed by the phrase "without limitation", (iii) the word "incur" shall be construed to mean incur, create, issue, assume, become liable in respect of or suffer to exist (and the words "incurred" and "incurrence" shall have correlative meanings), (iv) the words "asset" and "property" shall be construed to have the same meaning and effect and to refer to any and all tangible and intangible assets and properties, including cash, Capital Stock, securities, revenues, accounts, leasehold interests and contract rights, and (v) references to agreements or other Contractual Obligations shall, unless otherwise specified, be deemed to refer to such agreements or Contractual Obligations as amended, supplemented, restated or otherwise modified from time to time.

(c) The words "hereof", "herein" and "hereunder" and words of similar import when used in this Agreement shall refer to this Agreement as a whole and not to any particular provision of this Agreement, and Section, Schedule and Exhibit references are to this Agreement unless otherwise specified.

(d) The meanings given to terms defined herein shall be equally applicable to both the singular and plural forms of such terms.

## SECTION 2. AMOUNT AND TERMS OF COMMITMENTS

2.1. Term Commitments. Subject to the terms and conditions hereof, each

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Term Lender severally agrees to make a term loan (a "Term Loan") to the Borrower on the Closing Date in an amount not to exceed the amount of the Term Commitment of such Term Lender. The Term Loans may from time to time be Eurodollar Loans or ABR Loans, as determined by the Borrower and notified to the Administrative Agent in accordance with Sections 2.2 and 2.10.

2.2. Procedure for Term Loan Borrowing. The Borrower shall give the

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Administrative Agent irrevocable notice (which notice must be received by the Administrative Agent prior to 10:00 A.M., New York City time, one Business Day prior to the anticipated Closing Date) requesting that the Term Lenders make the Term Loans on the Closing Date and specifying the amount to be borrowed. The Term Loans made on the Closing Date shall initially be ABR Loans. Upon receipt of such notice the Administrative Agent shall promptly notify each Term Lender thereof. Not later than 12:00 Noon, New York City time, on the Closing Date each Term Lender shall make available to the Administrative Agent at the Funding Office an amount in immediately available funds equal to the Term Loan to be made by such Term Lender. The Administrative Agent shall credit the account of the Borrower on the books of such office of the Administrative Agent with the aggregate of the amounts made available to the Administrative Agent by the Term Lenders in immediately available funds.

2.3. Repayment of Term Loans. The Borrower shall repay the Term Loans

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in 6 installments, in each case on the date and in the amounts set forth below:

Installment Date -----	Amount -----
December 31, 2002	\$1,000,000
June 30, 2003	\$1,000,000
December 31, 2003	\$1,000,000
June 30, 2004	\$1,000,000
December 31, 2004	\$1,000,000
June 6, 2005	\$580,000,000

Notwithstanding anything to the contrary contained herein, the Borrower shall repay all outstanding Term Loans in full on the Revolving Termination Date.

2.4. Revolving Commitments. (a) Subject to the terms and conditions  
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hereof, each Revolving Lender severally agrees to make revolving credit loans ("Revolving Loans"; together with the Term Loans, the "Loans") to the Borrower from time to time during the Revolving Commitment Period in an aggregate principal amount at any one time outstanding which does not exceed the amount of such Lender's Revolving Commitment. During the Revolving Commitment Period the Borrower may use the Revolving Commitments by borrowing, prepaying the Revolving Loans in whole or in part, and reborrowing, all in accordance with the terms and conditions hereof. The Revolving Loans may from time to time be Eurodollar Loans or ABR Loans, as determined by the Borrower and notified to the Administrative Agent in accordance with Sections 2.5 and 2.10.

(b) The Borrower and any one or more Lenders (including New Revolving Lenders) may, with the consent of the Administrative Agent, from time to time agree that such Lenders shall make, obtain or increase the amount of such Lenders' Revolving Commitments by executing and delivering to the Administrative Agent an Increased Facility Activation Notice specifying (i) the amount of such increase and (ii) the applicable Increased Facility Closing Date. Notwithstanding the foregoing, without the consent of the Required Lenders, (w) the aggregate amount of incremental Revolving Commitments obtained pursuant to this paragraph shall not exceed \$40,000,000 and the Total Revolving Commitments shall at no time exceed \$175,000,000, (x) the incremental Revolving Commitments may not be made, obtained or increased after the occurrence and during the continuation of a Default or Event of Default, (y) each increase effected pursuant to this paragraph shall be in a minimum amount of at least \$5,000,000 and (z) no more than five Increased Facility Closing Dates may be selected by the Borrower during the term of this Agreement. Any incremental Revolving Commitments shall be governed by this Agreement and the other Loan Documents. No Lender shall have any obligation to participate in any increase described in this paragraph unless it agrees to do so in its sole discretion. Notwithstanding anything to the contrary contained herein, no increase described in this paragraph may be made or obtained unless and until the Administrative Agent is satisfied that the Collateral Agent under the KGE Collateral Agreement shall have received additional certificates representing first mortgage bonds pledged pursuant to the KGE Collateral Agreement in an aggregate principal amount at least equal to the amount of such increase.

(c) Any additional bank, financial institution or other entity that, with the consent of the Borrower and the Administrative Agent (which consent shall not be unreasonably withheld), elects to become a "Lender" under this Agreement in connection with any transaction described in Section 2.4(b) shall execute a New Revolving Lender Supplement (each, a "New Revolving Lender Supplement"), substantially in the form of Exhibit E-1, whereupon such bank,  
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financial institution or other entity (a "New Revolving Lender") shall become a  
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Lender for all purposes and to the same extent as if originally a party hereto and shall be bound by and entitled to the benefits of this Agreement.

(d) On each Increased Facility Closing Date, the Borrower shall borrow Revolving Loans under the increased Revolving Commitments from each Lender participating in the relevant

increase (i) if Revolving Loans that are ABR Loans are outstanding on the relevant Increased Facility Closing Date, in an amount of Revolving Loans that are ABR Loans that will result in each such participating Lender having Revolving Loans that are ABR Loans outstanding in a principal amount equal to its Revolving Percentage of the aggregate outstanding principal amount of Revolving Loans that are ABR Loans and (ii) if Revolving Loans that are Eurodollar Loans are outstanding on the relevant Increased Facility Closing Date, in an amount of Revolving Loans that are Eurodollar Loans on such date (if a Eurodollar Tranche of Revolving Loans that are Eurodollar Loans is being continued for another Interest Period on such date) and/or such later date on which a Eurodollar Tranche of Revolving Loans that are Eurodollar Loans outstanding on the Increased Facility Closing Date is continued for another Interest Period that will result, in each case, in each such participating Lender having Revolving Loans that are Eurodollar Loans made by it included in such extended Eurodollar Tranche in a principal amount equal to its Revolving Percentage of the aggregate outstanding principal amount of Revolving Loans that are Eurodollar Loans included in such Eurodollar Tranche.

(e) The Borrower shall repay all outstanding Revolving Loans on the Revolving Termination Date.

2.5. Procedure for Revolving Loan Borrowing. The Borrower may borrow

under the Revolving Commitments during the Revolving Commitment Period on any Business Day, provided that the Borrower shall give the Administrative Agent irrevocable notice (which notice must be received by the Administrative Agent prior to 11:00 A.M., New York City time, (a) three Business Days prior to the requested Borrowing Date, in the case of Eurodollar Loans, or (b) on the requested Borrowing Date, in the case of ABR Loans), specifying (i) the amount and Type of Revolving Loans to be borrowed, (ii) the requested Borrowing Date and (iii) in the case of Eurodollar Loans, the respective amounts of each such Type of Loan and the respective lengths of the initial Interest Period therefor. Any Revolving Loans made on the Closing Date shall initially be ABR Loans. Each borrowing under the Revolving Commitments shall be in an amount equal to (x) in the case of ABR Loans, \$1,000,000 or a whole multiple thereof (or, if the then aggregate Available Revolving Commitments are less than \$1,000,000, such lesser amount) and (y) in the case of Eurodollar Loans, \$5,000,000 or a whole multiple of \$1,000,000 in excess thereof. Upon receipt of any such notice from the Borrower, the Administrative Agent shall promptly notify each Revolving Lender thereof. Each Revolving Lender will make the amount of its pro rata share of each borrowing available to the Administrative Agent for the account of the Borrower at the Funding Office prior to 12:00 Noon, New York City time, on the Borrowing Date requested by the Borrower in funds immediately available to the Administrative Agent. Such borrowing will then be made available to the Borrower by the Administrative Agent crediting the account of the Borrower on the books of such office with the aggregate of the amounts made available to the Administrative Agent by the Revolving Lenders and in like funds as received by the Administrative Agent.

2.6. Commitment Fees, etc. (a) The Borrower agrees to pay to the

Administrative Agent for the account of each Revolving Lender a commitment fee for the period from and including the date hereof to the last day of the Revolving Commitment Period, computed at the Commitment Fee Rate on the average daily amount of the Available Revolving Commitment of such Lender during the period for which payment is made, payable quarterly in arrears on each Fee Payment Date, commencing on the first such date to occur after the date hereof.

(b) The Borrower agrees to pay to the Administrative Agent the fees in the amounts and on the dates previously agreed to in writing by the Borrower and the Administrative Agent.

2.7. Termination or Reduction of Revolving Commitments. The Borrower

shall have the right, upon not less than three Business Days' notice to the Administrative Agent, to terminate the

Revolving Commitments or, from time to time, to reduce the amount of the Revolving Commitments; provided that no such termination or reduction of Revolving Commitments shall be permitted if, after giving effect thereto and to any prepayments of the Revolving Loans made on the effective date thereof, the Total Revolving Extensions of Credit would exceed the Total Revolving Commitments. Any such reduction shall be in an amount equal to \$1,000,000, or a whole multiple thereof, and shall reduce permanently the Revolving Commitments then in effect.

2.8. Optional Prepayments. The Borrower may at any time and from time

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to time prepay the Loans, in whole or in part, without premium or penalty, upon irrevocable notice delivered to the Administrative Agent no later than 11:00 A.M., New York City time, three Business Days prior thereto in the case of Eurodollar Loans, and no later than 11:00 A.M., New York City time, on the Business Day thereof in the case of ABR Loans, which notice shall specify the date and amount of prepayment and whether the prepayment is of Eurodollar Loans or ABR Loans; provided, that if a Eurodollar Loan is prepaid on any day other than the last day of the Interest Period applicable thereto, the Borrower shall also pay any amounts owing pursuant to Section 2.18. Upon receipt of any such notice the Administrative Agent shall promptly notify each relevant Lender thereof. If any such notice is given, the amount specified in such notice shall be due and payable on the date specified therein, together with accrued interest to such date on the amount prepaid. Partial prepayments of Loans shall be in an aggregate principal amount of \$1,000,000 or a whole multiple thereof.

2.9. Mandatory Prepayments.

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(a) If any Capital Stock or Indebtedness shall be issued or incurred by any Group Member (other than Westar Industries and its Subsidiaries), an amount equal to 100% of the Net Cash Proceeds thereof, if any, shall be applied on the date of such issuance or incurrence toward the prepayment of the Term Loans as set forth in Section 2.9(d); provided that the Term Loans need not be prepaid

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with the Net Cash Proceeds of (i) issuances of Capital Stock pursuant to employee benefit plans or pursuant to the Borrower's direct stock purchase plan, (ii) Indebtedness that (A) has a maturity that is at least one year after the scheduled maturity of the Term Loans, (B) does not contain covenants or other restrictions more restrictive than the covenants and restrictions contained herein and (C) is used to refinance existing Indebtedness of the Borrower or KGE, (iii) remarketing of variable rate industrial revenue bonds, (iv) issuances of Capital Stock to the extent the Net Cash Proceeds thereof are used to repay all or part of the 2003 Bonds and/or the 2004 Bonds, or (v) proceeds of advances by the Borrower to KGE or KGE to the Borrower.

(b) If on any date any Group Member shall receive Net Cash Proceeds from any Disposition made pursuant to Section 6.4(e), an amount equal to 100% of such Net Cash Proceeds shall be applied within 120 days of such date toward the prepayment of the Term Loans as set forth in Section 2.9(d); provided that prior

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to such application, such Net Cash Proceeds will be maintained in a segregated account with the Administrative Agent and invested in Cash Equivalents until the time of such application; provided, further, that the Term Loans need not be

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prepaid with such Net Cash Proceeds to the extent such Net Cash Proceeds are either (i) used to repurchase 2003 Bonds and/or 2004 Bonds or (ii) irrevocably deposited with the trustee for the 2003 Bonds and/or 2004 Bonds, as applicable, as trust funds in trust for the purpose of making payments of amounts owing in respect of the 2003 Bonds and/or 2004 Bonds, as the case may be, when due.

(c) If on any date any Group Member shall receive Net Cash Proceeds from any Disposition made pursuant to Section 6.4(j) or Section 6.4(k), an amount equal to 100% of such Net Cash Proceeds shall be applied on such date toward the prepayment of the Term Loans and the permanent reduction of the Revolving Commitments as set forth in this Section 2.9(c) and in Section 2.9(d). Amounts to be applied in connection with prepayments and Commitment reductions made pursuant to

this Section 2.9(c) shall be applied, on a pro rata basis, to the prepayment of the Term Loans and to the permanent reduction of the Revolving Commitments. Any such reduction of the Revolving Commitments shall be accompanied by prepayment of the Revolving Loans to the extent, if any, that the Total Revolving Extensions of Credit exceed the amount of the Total Revolving Commitments as so reduced.

(d) The application of any prepayment pursuant to Section 2.9 shall be made, first, to ABR Loans and, second, to Eurodollar Loans. Each prepayment of

the Loans under Section 2.9 shall be accompanied by accrued interest to the date of such prepayment on the amount prepaid.

2.10. Conversion and Continuation Options. (a) The Borrower may elect

from time to time to convert Eurodollar Loans to ABR Loans by giving the Administrative Agent prior irrevocable notice of such election no later than 11:00 A.M., New York City time, on the Business Day of the proposed conversion, provided that any such conversion of Eurodollar Loans may only be made on the

last day of an Interest Period with respect thereto. The Borrower may elect from time to time to convert ABR Loans to Eurodollar Loans by giving the Administrative Agent prior irrevocable notice of such election no later than 11:00 A.M., New York City time, on the third Business Day preceding the proposed conversion date (which notice shall specify the length of the initial Interest Period therefor), provided that no ABR Loan under a particular Facility may be

converted into a Eurodollar Loan when any Event of Default has occurred and is continuing and the Administrative Agent or the Majority Facility Lenders in respect of such Facility have determined in its or their sole discretion not to permit such conversions. Upon receipt of any such notice the Administrative Agent shall promptly notify each relevant Lender thereof.

(b) Any Eurodollar Loan may be continued as such upon the expiration of the then current Interest Period with respect thereto by the Borrower giving irrevocable notice to the Administrative Agent, in accordance with the applicable provisions of the term "Interest Period" set forth in Section 1.1, of the length of the next Interest Period to be applicable to such Loans, provided

that no Eurodollar Loan under a particular Facility may be continued as such when any Event of Default has occurred and is continuing and the Administrative Agent has or the Majority Facility Lenders in respect of such Facility have determined in its or their sole discretion not to permit such continuations, and provided, further, that if the Borrower shall fail to give any required notice

as described above in this paragraph or if such continuation is not permitted pursuant to the preceding proviso such Loans shall be automatically converted to ABR Loans on the last day of such then expiring Interest Period. Upon receipt of any such notice the Administrative Agent shall promptly notify each relevant Lender thereof.

2.11. Limitations on Eurodollar Tranches. Notwithstanding anything to

the contrary in this Agreement, all borrowings, conversions and continuations of Eurodollar Loans and all selections of Interest Periods shall be in such amounts and be made pursuant to such elections so that, (a) after giving effect thereto, the aggregate principal amount of the Eurodollar Loans comprising each Eurodollar Tranche shall be equal to \$5,000,000 or a whole multiple of \$1,000,000 in excess thereof and (b) no more than 20 Eurodollar Tranches shall be outstanding at any one time.

2.12. Interest Rates and Payment Dates. (a) Each Eurodollar Loan shall

bear interest for each day during each Interest Period with respect thereto at a rate per annum equal to the Eurodollar Rate determined for such day plus the Applicable Margin.

(b) Each ABR Loan shall bear interest at a rate per annum equal to the ABR plus the Applicable Margin.

(c) (i) If all or a portion of the principal amount of any Loan shall not be paid when due (whether at the stated maturity, by acceleration or otherwise), all outstanding Loans shall bear interest at a rate per annum equal to the rate that would otherwise be applicable thereto pursuant to the foregoing provisions of this Section plus 2%, and (ii) if all or a portion of any interest payable on any Loan or any commitment fee or other amount payable hereunder shall not be paid when due (whether at the stated maturity, by acceleration or otherwise), such overdue amount shall bear interest at a rate per annum equal to the rate then applicable to ABR Loans under the relevant Facility plus 2% (or,

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 in the case of any such other amounts that do not relate to a particular Facility, the rate then applicable to ABR Loans under the Revolving Facility plus 2%), in each case, with respect to clauses (i) and (ii) above, from the

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 date of such non-payment until such amount is paid in full (as well after as before judgment).

(d) Interest shall be payable in arrears on each Interest Payment Date, provided that interest accruing pursuant to paragraph (c) of this Section shall be payable from time to time on demand.

2.13. Computation of Interest and Fees. (a) Interest and fees payable

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 pursuant hereto shall be calculated on the basis of a 360-day year for the actual days elapsed, except that, with respect to ABR Loans the rate of interest on which is calculated on the basis of the Prime Rate, the interest thereon shall be calculated on the basis of a 365- (or 366-, as the case may be) day year for the actual days elapsed. The Administrative Agent shall as soon as practicable notify the Borrower and the relevant Lenders of each determination of a Eurodollar Rate. Any change in the interest rate on a Loan resulting from a change in the ABR or the Eurocurrency Reserve Requirements shall become effective as of the opening of business on the day on which such change becomes effective. The Administrative Agent shall as soon as practicable notify the Borrower and the relevant Lenders of the effective date and the amount of each such change in interest rate.

(b) Each determination of an interest rate by the Administrative Agent pursuant to any provision of this Agreement shall be conclusive and binding on the Borrower and the Lenders in the absence of manifest error. The Administrative Agent shall, at the request of the Borrower, deliver to the Borrower a statement showing the quotations used by the Administrative Agent in determining any interest rate pursuant to Section 2.12(a).

2.14. Inability to Determine Interest Rate. If prior to the first day

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 of any Interest Period:

(a) the Administrative Agent shall have determined (which determination shall be conclusive and binding upon the Borrower) that, by reason of circumstances affecting the relevant market, adequate and reasonable means do not exist for ascertaining the Eurodollar Rate for such Interest Period, or

(b) the Administrative Agent shall have received notice from the Majority Facility Lenders in respect of the relevant Facility that the Eurodollar Rate determined or to be determined for such Interest Period will not adequately and fairly reflect the cost to such Lenders (as conclusively certified by such Lenders) of making or maintaining their affected Loans during such Interest Period,

the Administrative Agent shall give telecopy or telephonic notice thereof to the Borrower and the relevant Lenders as soon as practicable thereafter. If such notice is given (x) any Eurodollar Loans under the relevant Facility requested to be made on the first day of such Interest Period shall be made as ABR Loans, (y) any Loans under the relevant Facility that were to have been converted on the first day of such Interest Period to Eurodollar Loans shall be continued as ABR Loans and (z) any outstanding Eurodollar Loans under the relevant Facility shall be converted, on the last day of the then-current Interest Period, to

ABR Loans. Until such notice has been withdrawn by the Administrative Agent, no further Eurodollar Loans under the relevant Facility shall be made or continued as such, nor shall the Borrower have the right to convert Loans under the relevant Facility to Eurodollar Loans.

2.15. Pro Rata Treatment and Payments. (a) Each borrowing by the

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 Borrower from the Lenders hereunder, each payment by the Borrower on account of any commitment fee and any reduction of the Commitments of the Lenders shall be made pro rata according to the respective Term Percentages or Revolving  
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 Percentages, as the case may be, of the relevant Lenders.

(b) Each payment (including each prepayment) by the Borrower on account of principal of and interest on the Term Loans shall be made pro rata according  
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 to the respective outstanding principal amounts of the Term Loans then held by the Term Lenders. The amount of each principal prepayment of the Term Loans shall be applied to reduce the then remaining installments of the Term Loans pro  
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 rata based upon the then remaining principal amount thereof. Amounts prepaid on  
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 account of the Term Loans may not be reborrowed.

(c) Each payment (including each prepayment) by the Borrower on account of principal of and interest on the Revolving Loans shall be made pro rata  
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 according to the respective outstanding principal amounts of the Revolving Loans then held by the Revolving Lenders.

(d) All payments (including prepayments) to be made by the Borrower hereunder, whether on account of principal, interest, fees or otherwise, shall be made without setoff or counterclaim and shall be made prior to 12:00 Noon, New York City time, on the due date thereof to the Administrative Agent, for the account of the Lenders, at the Funding Office, in Dollars and in immediately available funds. The Administrative Agent shall distribute such payments to the Lenders promptly upon receipt in like funds as received. If any payment hereunder (other than payments on the Eurodollar Loans) becomes due and payable on a day other than a Business Day, such payment shall be extended to the next succeeding Business Day. If any payment on a Eurodollar Loan becomes due and payable on a day other than a Business Day, the maturity thereof shall be extended to the next succeeding Business Day unless the result of such extension would be to extend such payment into another calendar month, in which event such payment shall be made on the immediately preceding Business Day. In the case of any extension of any payment of principal pursuant to the preceding two sentences, interest thereon shall be payable at the then applicable rate during such extension.

(e) Unless the Administrative Agent shall have been notified in writing by any Lender prior to a borrowing that such Lender will not make the amount that would constitute its share of such borrowing available to the Administrative Agent, the Administrative Agent may assume that such Lender is making such amount available to the Administrative Agent, and the Administrative Agent may, in reliance upon such assumption, make available to the Borrower a corresponding amount. If such amount is not made available to the Administrative Agent by the required time on the Borrowing Date therefor, such Lender shall pay to the Administrative Agent, on demand, such amount with interest thereon at a rate equal to the greater of (i) the Federal Funds Effective Rate and (ii) a rate determined by the Administrative Agent in accordance with banking industry rules on interbank compensation, for the period until such Lender makes such amount immediately available to the Administrative Agent. A certificate of the Administrative Agent submitted to any Lender with respect to any amounts owing under this paragraph shall be conclusive in the absence of manifest error. If such Lender's share of such borrowing is not made available to the Administrative Agent by such Lender within three Business Days after such Borrowing Date, the Administrative Agent shall also be entitled to recover such amount with interest thereon at the rate per annum applicable to ABR Loans under the relevant Facility, on demand, from the Borrower.

(f) Unless the Administrative Agent shall have been notified in writing by the Borrower prior to the date of any payment due to be made by the Borrower hereunder that the Borrower will not make such payment to the Administrative Agent, the Administrative Agent may assume that the Borrower is making such payment, and the Administrative Agent may, but shall not be required to, in reliance upon such assumption, make available to the Lenders their respective pro rata shares of a corresponding amount. If such payment is not made to the Administrative Agent by the Borrower within three Business Days after such due date, the Administrative Agent shall be entitled to recover, on demand, from each Lender to which any amount which was made available pursuant to the preceding sentence, such amount with interest thereon at the rate per annum equal to the daily average Federal Funds Effective Rate. Nothing herein shall be deemed to limit the rights of the Administrative Agent or any Lender against the Borrower.

2.16. Requirements of Law. (a) If the adoption of or any change in any

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Requirement of Law or in the interpretation or application thereof or compliance by any Lender with any request or directive (whether or not having the force of law) from any central bank or other Governmental Authority made subsequent to the date hereof:

(i) shall subject any Lender to any tax of any kind whatsoever with respect to this Agreement or any Eurodollar Loan made by it, or change the basis of taxation of payments to such Lender in respect thereof (except for Non-Excluded Taxes covered by Section 2.17 and changes in the rate of tax on the overall net income of such Lender);

(ii) shall impose, modify or hold applicable any reserve, special deposit, compulsory loan or similar requirement against assets held by, deposits or other liabilities in or for the account of, advances, loans or other extensions of credit by, or any other acquisition of funds by, any office of such Lender that is not otherwise included in the determination of the Eurodollar Rate; or

(iii) shall impose on such Lender any other condition;

and the result of any of the foregoing is to increase the cost to such Lender, by an amount that such Lender deems to be material, of making, converting into, continuing or maintaining Eurodollar Loans, or to reduce any amount receivable hereunder in respect thereof, then, in any such case, the Borrower shall promptly pay such Lender, upon its demand, any additional amounts necessary to compensate such Lender on an after-tax basis for such increased cost or reduced amount receivable. Upon any Lender becoming aware that it is entitled to claim any additional amounts pursuant to this paragraph, it shall promptly notify the Borrower (with a copy to the Administrative Agent) of the event by reason of which it has become so entitled.

(b) If any Lender shall have determined that the adoption of or any change in any Requirement of Law regarding capital adequacy or in the interpretation or application thereof or compliance by such Lender or any corporation controlling such Lender with any request or directive regarding capital adequacy (whether or not having the force of law) from any Governmental Authority made subsequent to the date hereof shall have the effect of reducing the rate of return on such Lender's or such corporation's capital as a consequence of its obligations hereunder to a level below that which such Lender or such corporation could have achieved but for such adoption, change or compliance (taking into consideration such Lender's or such corporation's policies with respect to capital adequacy) by an amount deemed by such Lender to be material, then from time to time, after submission by such Lender to the Borrower (with a copy to the Administrative Agent) of a written request therefor, the Borrower shall pay to such Lender such additional amount or amounts as will compensate such Lender or such corporation on an after-tax basis for such reduction; provided that the Borrower shall not be required to

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compensate a



Lender pursuant to this paragraph for any amounts incurred more than six months prior to the date that such Lender notifies the Borrower of such Lender's intention to claim compensation therefor; and provided further that, if the

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 circumstances giving rise to such claim have a retroactive effect, then such six-month period shall be extended to include the period of such retroactive effect.

(c) A certificate as to any additional amounts payable pursuant to this Section submitted in good faith by any Lender to the Borrower (with a copy to the Administrative Agent) shall be conclusive in the absence of manifest error. The obligations of the Borrower pursuant to this Section shall survive the termination of this Agreement and the payment of the Loans and all other amounts payable hereunder.

2.17. Taxes. (a) All payments made by the Borrower under this Agreement

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 shall be made free and clear of, and without deduction or withholding for or on account of, any present or future income, stamp or other taxes, levies, imposts, duties, charges, fees, deductions or withholdings, now or hereafter imposed, levied, collected, withheld or assessed by any Governmental Authority, excluding net income taxes and franchise taxes (imposed in lieu of net income taxes) imposed on the Administrative Agent or any Lender as a result of a present or former connection between the Administrative Agent or such Lender and the jurisdiction of the Governmental Authority imposing such tax or any political subdivision or taxing authority thereof or therein (other than any such connection arising solely from the Administrative Agent or such Lender having executed, delivered or performed its obligations or received a payment under, or enforced, this Agreement or any other Loan Document). If any such non-excluded taxes, levies, imposts, duties, charges, fees, deductions or withholdings ("Non-Excluded Taxes") or Other Taxes are required to be withheld from any

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 amounts payable to the Administrative Agent or any Lender hereunder, the amounts so payable to the Administrative Agent or such Lender shall be increased to the extent necessary to yield to the Administrative Agent or such Lender (after payment of all Non-Excluded Taxes and Other Taxes) interest or any such other amounts payable hereunder at the rates or in the amounts specified in this Agreement, provided, however, that the Borrower shall not be required to increase any such amounts payable to any Lender with respect to any Non-Excluded Taxes (i) that are attributable to such Lender's failure to comply with the requirements of paragraph (d) or (e) of this Section or (ii) that are United States withholding taxes imposed on amounts payable to such Lender at the time such Lender becomes a party to this Agreement, except to the extent that such Lender's assignor (if any) was entitled, at the time of assignment, to receive additional amounts from the Borrower with respect to such Non-Excluded Taxes pursuant to this paragraph.

(b) In addition, the Borrower shall pay any Other Taxes to the relevant Governmental Authority in accordance with applicable law.

(c) Whenever any Non-Excluded Taxes or Other Taxes are payable by the Borrower, as promptly as possible thereafter the Borrower shall send to the Administrative Agent for its own account or for the account of the relevant Lender, as the case may be, a certified copy of an original official receipt received by the Borrower showing payment thereof. If the Borrower fails to pay any Non-Excluded Taxes or Other Taxes when due to the appropriate taxing authority or fails to remit to the Administrative Agent the required receipts or other required documentary evidence, the Borrower shall indemnify the Administrative Agent and the Lenders for any incremental taxes, interest or penalties that may become payable by the Administrative Agent or any Lender as a result of any such failure.

(d) Each Lender (or Transferee) that is not a "U.S. Person" as defined in Section 7701(a)(30) of the Code (a "Non-U.S. Lender") shall deliver to the

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 Borrower and the Administrative Agent (or, in the case of a Participant, to the Lender from which the related participation shall have been purchased) two copies of either U.S. Internal Revenue Service Form W-8BEN or Form W-8ECI, or, in the case of a Non-U.S. Lender claiming exemption from U.S. federal withholding tax under Section

871(h) or 881(c) of the Code with respect to payments of "portfolio interest", a statement substantially in the form of Exhibit C and a Form W-8BEN, or any subsequent versions thereof or successors thereto, properly completed and duly executed by such Non-U.S. Lender claiming complete exemption from, or a reduced rate of, U.S. federal withholding tax on all payments by the Borrower under this Agreement and the other Loan Documents. Such forms shall be delivered by each Non-U.S. Lender on or before the date it becomes a party to this Agreement (or, in the case of any Participant, on or before the date such Participant purchases the related participation). In addition, each Non-U.S. Lender shall deliver such forms promptly upon the obsolescence or invalidity of any form previously delivered by such Non-U.S. Lender. Each Non-U.S. Lender shall promptly notify the Borrower at any time it determines that it is no longer in a position to provide any previously delivered certificate to the Borrower (or any other form of certification adopted by the U.S. taxing authorities for such purpose). Notwithstanding any other provision of this paragraph, a Non-U.S. Lender shall not be required to deliver any form pursuant to this paragraph that such Non-U.S. Lender is not legally able to deliver.

(e) A Lender that is entitled to an exemption from or reduction of non-U.S. withholding tax under the law of the jurisdiction in which the Borrower is located, or any treaty to which such jurisdiction is a party, with respect to payments under this Agreement shall deliver to the Borrower (with a copy to the Administrative Agent), at the time or times prescribed by applicable law or reasonably requested by the Borrower, such properly completed and executed documentation prescribed by applicable law as will permit such payments to be made without withholding or at a reduced rate, provided that such Lender is legally entitled to complete, execute and deliver such documentation and in such Lender's judgment such completion, execution or submission would not materially prejudice the legal position of such Lender.

(f) The agreements in this Section shall survive the termination of this Agreement and the payment of the Loans and all other amounts payable hereunder.

2.18. Indemnity. The Borrower agrees to indemnify each Lender for, and

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to hold each Lender harmless from, any loss or expense that such Lender may sustain or incur as a consequence of (a) default by the Borrower in making a borrowing of, conversion into or continuation of Eurodollar Loans after the Borrower has given a notice requesting the same in accordance with the provisions of this Agreement, (b) default by the Borrower in making any prepayment of or conversion from Eurodollar Loans after the Borrower has given a notice thereof in accordance with the provisions of this Agreement or (c) the making of a prepayment of Eurodollar Loans on a day that is not the last day of an Interest Period with respect thereto. Such indemnification may include an amount equal to the excess, if any, of (i) the amount of interest that would have accrued on the amount so prepaid, or not so borrowed, converted or continued, for the period from the date of such prepayment or of such failure to borrow, convert or continue to the last day of such Interest Period (or, in the case of a failure to borrow, convert or continue, the Interest Period that would have commenced on the date of such failure) in each case at the applicable rate of interest for such Loans provided for herein (excluding, however, the Applicable Margin included therein, if any) over (ii) the amount of interest (as reasonably determined by such Lender) that would have accrued to such Lender on such amount by placing such amount on deposit for a comparable period with leading banks in the interbank eurodollar market. A certificate as to any amounts payable pursuant to this Section submitted in good faith to the Borrower by any Lender shall be conclusive in the absence of manifest error. This covenant shall survive the termination of this Agreement and the payment of the Loans and all other amounts payable hereunder.

2.19. Change of Lending Office. Each Lender agrees that, upon the

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occurrence of any event giving rise to the operation of Section 2.16 or 2.17(a) with respect to such Lender, it will, if requested by the Borrower, use reasonable efforts (subject to overall policy considerations of such Lender) to designate another lending office for any Loans affected by such event with the object of

avoiding the consequences of such event; provided, that such designation is made

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 on terms that, in the sole judgment of such Lender, cause such Lender and its lending office(s) to suffer no economic, legal or regulatory disadvantage, and provided, further, that nothing in this Section shall affect or postpone any of the obligations of the Borrower or the rights of any Lender pursuant to Section 2.16 or 2.17(a).

2.20. Replacement of Lenders. The Borrower shall be permitted to

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 replace any Lender that (a) requests reimbursement for amounts owing pursuant to Section 2.16 or 2.17(a) or (b) defaults in its obligation to make Loans hereunder, with a replacement financial institution; provided that (i) such replacement does not conflict with any Requirement of Law, (ii) no Event of Default shall have occurred and be continuing at the time of such replacement, (iii) prior to any such replacement, such Lender shall have taken no action under Section 2.19 so as to eliminate the continued need for payment of amounts owing pursuant to Section 2.16 or 2.17(a), (iv) the replacement financial institution shall purchase, at par, all Loans and other amounts owing to such replaced Lender on or prior to the date of replacement, (v) the Borrower shall be liable to such replaced Lender under Section 2.18 if any Eurodollar Loan owing to such replaced Lender shall be purchased other than on the last day of the Interest Period relating thereto, (vi) the replacement financial institution, if not already a Lender, shall be reasonably satisfactory to the Administrative Agent, (vii) the replaced Lender shall be obligated to make such replacement in accordance with the provisions of Section 9.6 (provided that the Borrower shall be obligated to pay the registration and processing fee referred to therein), (viii) until such time as such replacement shall be consummated, the Borrower shall pay all additional amounts (if any) required pursuant to Section 2.16 or 2.17(a), as the case may be, and (ix) any such replacement shall not be deemed to be a waiver of any rights that the Borrower, the Administrative Agent or any other Lender shall have against the replaced Lender.

### SECTION 3. REPRESENTATIONS AND WARRANTIES

To induce the Administrative Agent and the Lenders to enter into this Agreement and to make the Loans, the Borrower hereby represents and warrants to the Administrative Agent and each Lender that:

3.1. Financial Condition. The Borrower has heretofore furnished to the

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 Lenders (a) its consolidated balance sheets and statements of income and changes in financial position (or of cash flow, as the case may be) as of and for the fiscal year ended December 31, 2001, audited by and accompanied by the opinion of Arthur Andersen LLP and (b) its consolidated balance sheets and statements of income and changes in financial position as of and for the fiscal quarter and the portion of the fiscal year ended March 31, 2002, certified by its chief financial officer. Such financial statements present fairly the financial condition and results of operations of the Borrower and its consolidated Subsidiaries, as of such dates and for such periods. Such balance sheets and the notes thereto disclose all material liabilities, direct or contingent, of the Borrower and its consolidated Subsidiaries, as of the dates thereof. Such financial statements were prepared in accordance with GAAP applied on a consistent basis (except as disclosed in the notes thereto). During the period from December 31, 2001 to and including the date hereof, there has been no Disposition by the Borrower or any Significant Subsidiary of any material part of its business or property other than as disclosed in the Exchange Act Documents.

3.2. No Change. Other than as disclosed in the Exchange Act Documents,

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 since December 31, 2001, there has been no development or event that has had or could reasonably be expected to have a Material Adverse Effect.

3.3. Existence; Compliance with Law. Each of the Borrower and the

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 Significant Subsidiaries (a) is duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization, (b) has the power and authority, and the legal right, to own and operate its property

and assets and to conduct the business in which it is currently engaged, except to the extent the failure to have such power or authority would not result in a Material Adverse Effect, (c) is duly qualified as a foreign corporation and in good standing under the laws of each jurisdiction where its ownership, lease or operation of property or the conduct of its business requires such qualification, except where the failure so to qualify or be in good standing would not result in a Material Adverse Effect, and (d) is in compliance with all Requirements of Law except to the extent that the failure to comply therewith would not result in a Material Adverse Effect.

3.4. Power; Authorization; Enforceable Obligations. Each Loan Party has

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 the power and authority, and the legal right, to make, deliver and perform the Loan Documents to which it is a party and, in the case of the Borrower, to obtain extensions of credit hereunder. Each Loan Party has taken all necessary organizational action to authorize the execution, delivery and performance of the Loan Documents to which it is a party and, in the case of the Borrower, to authorize the extensions of credit on the terms and conditions of this Agreement. No consent or authorization of, filing with, notice to or other act by or in respect of, any Governmental Authority or any other Person is required in connection with the Transactions, the extensions of credit hereunder or with the execution, delivery, performance, validity or enforceability of this Agreement or any of the Loan Documents, except (i) consents, authorizations, filings and notices described in Schedule 3.4, which consents, authorizations, filings and notices have been obtained or made and are in full force and effect and (ii) the filings referred to in Section 3.19. Each Loan Document has been duly executed and delivered on behalf of each Loan Party party thereto. This Agreement constitutes, and each other Loan Document upon execution will constitute, a legal, valid and binding obligation of each Loan Party party thereto, enforceable against each such Loan Party in accordance with its terms, except as enforceability may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or similar laws affecting the enforcement of creditors' rights generally and by general equitable principles (whether enforcement is sought by proceedings in equity or at law).

3.5. No Legal Bar. The execution, delivery and performance of this

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 Agreement and the other Loan Documents, the borrowings hereunder and the use of the proceeds thereof will not violate any Requirement of Law or any Contractual Obligation of any Loan Party and will not result in, or require, the creation or imposition of any Lien on any of their respective properties or revenues pursuant to any Requirement of Law or any such Contractual Obligation (other than the Liens created by the Security Documents). No Requirement of Law or Contractual Obligation applicable to the Borrower or any of its Subsidiaries could reasonably be expected to have a Material Adverse Effect.

3.6. Litigation. Except as set forth in the Exchange Act Documents, no

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 litigation, investigation or proceeding of or before any arbitrator or Governmental Authority is pending or, to the knowledge of the Borrower, threatened by or against the Borrower or any Significant Subsidiary or against any of their respective properties or revenues (a) with respect to any of the Loan Documents or any of the transactions contemplated hereby or thereby, or (b) as to which there is a reasonable possibility of an adverse determination and which, if adversely determined, could, individually or in the aggregate, result in a Material Adverse Effect.

3.7. No Default. No Group Member is in default under or with respect to

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 any of its Contractual Obligations in any respect that could reasonably be expected to have a Material Adverse Effect. No Default or Event of Default has occurred and is continuing.

3.8. Ownership of Property; Liens. Each of the Borrower and the

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 Significant Subsidiaries has good title to, or valid leasehold interests in, all its material properties and assets, except for defects in title that do not materially interfere with its ability to conduct its business as currently conducted or to utilize such properties and assets for their intended purposes which would not reasonably

be expected to result in a Material Adverse Effect, and none of such property or assets is subject to any Lien except as permitted by Section 6.2.

3.9. Intellectual Property. Except as in the aggregate could not

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reasonably be expected to have a Material Adverse Effect: (a) each of the Borrower and the Significant Subsidiaries owns, or is licensed to use, all Intellectual Property necessary for the conduct of its business as currently conducted; (b) no claim has been asserted and is pending by any Person challenging or questioning the use of any Intellectual Property or the validity or effectiveness of any Intellectual Property, nor does the Borrower know of any valid basis for any such claim and (c) the use of Intellectual Property by each of the Borrower and the Significant Subsidiaries does not infringe on the rights of any Person in any material respect.

3.10. Taxes. Each of the Borrower and the Significant Subsidiaries has

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filed or caused to be filed all Federal, state and other material tax returns that are required to be filed and has paid all taxes shown to be due and payable on said returns or on any assessments made against it or any of its property and all other taxes, fees or other charges imposed on it or any of its property by any Governmental Authority (other than any the amount or validity of which are currently being contested in good faith by appropriate proceedings and with respect to which reserves in conformity with GAAP have been provided on the books of the Borrower or the relevant Significant Subsidiary); no material tax Lien has been filed, and, to the knowledge of the Borrower, no claim is being asserted, with respect to any such tax, fee or other charge.

3.11. Federal Regulations. No part of the proceeds of any Loans, and no

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other extensions of credit hereunder, will be used for "buying" or "carrying" any "margin stock" within the respective meanings of each of the quoted terms under Regulation U as now and from time to time hereafter in effect or for any purpose that violates the provisions of the Regulations of the Board. If requested by any Lender or the Administrative Agent, the Borrower will furnish to the Administrative Agent and each Lender a statement to the foregoing effect in conformity with the requirements of FR Form G-3 or FR Form U-1, as applicable, referred to in Regulation U.

3.12. Labor Matters. Except as, in the aggregate, could not reasonably

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be expected to have a Material Adverse Effect: (a) there are no strikes or other labor disputes against any Group Member pending or, to the knowledge of the Borrower, threatened; (b) hours worked by and payment made to employees of each Group Member have not been in violation of the Fair Labor Standards Act or any other applicable Requirement of Law dealing with such matters; and (c) all payments due from any Group Member on account of employee health and welfare insurance have been paid or accrued as a liability on the books of the relevant Group Member.

3.13. ERISA. Neither a Reportable Event nor an "accumulated funding

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deficiency" (within the meaning of Section 412 of the Code or Section 302 of ERISA) has occurred during the five-year period prior to the date on which this representation is made or deemed made with respect to any Plan, and each Plan has complied in all material respects with the applicable provisions of ERISA and the Code. No termination of a Single Employer Plan has occurred, and no Lien in favor of the PBGC or a Plan has arisen, during such five-year period. The present value of all accrued benefits under each Single Employer Plan (based on those assumptions used to fund such Plans) did not, as of the last annual valuation date prior to the date on which this representation is made or deemed made, exceed the value of the assets of such Plan allocable to such accrued benefits by a material amount. Neither the Borrower nor any Commonly Controlled Entity has had a complete or partial withdrawal from any Multiemployer Plan that has resulted or could reasonably be expected to result in a material liability under ERISA, and neither the Borrower nor any Commonly Controlled Entity would become subject to any material liability under ERISA if the Borrower or any such Commonly Controlled Entity were to withdraw completely from all

Multiemployer Plans as of the valuation date most closely preceding the date on which this representation is made or deemed made. No such Multiemployer Plan is in Reorganization or Insolvent.

3.14. Investment Company Act; Other Regulations. No Loan Party is an

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 "investment company", or a company "controlled" by an "investment company", within the meaning of the Investment Company Act of 1940, as amended.

3.15. Subsidiaries. Except as disclosed to the Administrative Agent by

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 the Borrower in writing from time to time after the Closing Date, Schedule 3.15 sets forth the name and jurisdiction of incorporation of each Subsidiary with assets of \$25,000,000 or more and, as to each such Subsidiary, the percentage of each class of Capital Stock owned by any Loan Party. KGE has no outstanding rights, warrants, options or convertible or exchangeable securities entitling the holders thereof, conditionally or unconditionally, to purchase, subscribe for or otherwise receive shares of capital stock of KGE.

3.16. Use of Proceeds. The proceeds of the Term Loans shall be used to

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 (a) repay loans under the Five-Year Competitive Advance and Revolving Credit Facility Agreement, dated as of March 17, 1998, among the Borrower, the financial institutions and agents parties thereto and JPMorgan Chase Bank, as administrative agent (as amended, supplemented or otherwise modified prior to the date hereof, the "Five-Year Agreement"), (b) redeem the KGE Bonds and (c) repurchase and retire other outstanding Indebtedness for borrowed money of the Borrower or KGE. The proceeds of the Revolving Loans shall be used for general corporate purposes.

3.17. Environmental Matters. Except as disclosed in the Exchange Act

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 Documents and as, in the aggregate, could not reasonably be expected to have a Material Adverse Effect:

(a) the facilities and properties owned, leased or operated by the Borrower and the Significant Subsidiaries (the "Properties") do not

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 contain, and have not previously contained, any Materials of Environmental Concern in amounts or concentrations or under circumstances that constitute or constituted a violation of, or could give rise to liability under, any Environmental Law;

(b) Neither the Borrower nor any Significant Subsidiary has received or is aware of any notice of violation, alleged violation, non-compliance, liability or potential liability regarding environmental matters or compliance with Environmental Laws with regard to any of the Properties or the business operated by the Borrower and the Significant Subsidiaries (the "Business"), nor does the Borrower have knowledge or reason to believe that any such notice will be received or is being threatened;

(c) Materials of Environmental Concern have not been transported or disposed of from the Properties in violation of, or in a manner or to a location that could give rise to liability under, any Environmental Law, nor have any Materials of Environmental Concern been generated, treated, stored or disposed of at, on or under any of the Properties in violation of, or in a manner that could give rise to liability under, any applicable Environmental Law;

(d) no judicial proceeding or governmental or administrative action is pending or, to the knowledge of the Borrower, threatened, under any Environmental Law to which the Borrower or any Significant Subsidiary is or will be named as a party with respect to the Properties or the Business, nor are there any consent decrees or other decrees, consent orders, administrative orders or other orders, or other administrative or judicial requirements outstanding under any Environmental Law with respect to the Properties or the Business;

(e) there has been no release or threat of release of Materials of Environmental Concern at or from the Properties, or arising from or related to the operations of the Borrower or any Significant Subsidiary in connection with the Properties or otherwise in connection with the Business, in violation of or in amounts or in a manner that could give rise to liability under Environmental Laws;

(f) the Properties and all operations at the Properties are in compliance, and have in the last five years been in compliance, with all applicable Environmental Laws, and there is no contamination at, under or about the Properties or violation of any Environmental Law with respect to the Properties or the Business; and

(g) neither the Borrower nor any Significant Subsidiary has assumed any liability of any other Person under Environmental Laws.

### 3.18. Accuracy of Information, etc. No statement or information

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contained in this Agreement, any other Loan Document, the Confidential Information Memorandum or any other document, certificate or statement furnished by or on behalf of any Loan Party to the Administrative Agent or the Lenders, or any of them, for use in connection with the transactions contemplated by this Agreement or the other Loan Documents, contained as of the date such statement, information, document or certificate was so furnished (or, in the case of the Confidential Information Memorandum, as of the date of this Agreement), any untrue statement of a material fact or omitted to state a material fact necessary to make the statements contained herein or therein not misleading, in each case where such material misstatement or omission could adversely affect the rights or interests of the Lenders. The projections and pro forma financial information contained in the materials referenced above are based upon good faith estimates and assumptions believed by management of the Borrower to be reasonable at the time made, it being recognized by the Lenders that such financial information as it relates to future events is not to be viewed as fact and that actual results during the period or periods covered by such financial information may differ from the projected results set forth therein by a material amount. There is no fact known to any Loan Party that could reasonably be expected to have a Material Adverse Effect that has not been expressly disclosed herein, in the other Loan Documents, in the Confidential Information Memorandum or in any other documents, certificates and statements furnished to the Administrative Agent and the Lenders for use in connection with the transactions contemplated hereby and by the other Loan Documents.

### 3.19. Security Documents. The KGE Collateral Agreement is effective to

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create in favor of the Collateral Agent thereunder, for the benefit of the Lenders, a legal, valid and enforceable security interest in the Collateral described therein and proceeds thereof. In the case of the Pledged Bonds described in the KGE Collateral Agreement, when certificates representing such Pledged Bonds are delivered to the Collateral Agent and the financing statements and other filings specified on Schedule 3.19(a) in appropriate form are filed in the offices specified on Schedule 3.19(a), the KGE Collateral Agreement shall constitute a fully perfected Lien on, and security interest in, all right, title and interest of the Loan Parties in such Collateral and the proceeds thereof, as security for the Obligations (as defined in the KGE Collateral Agreement), in each case ranking pari passu with any other holders of first mortgage bonds issued pursuant to the KGE Indenture and prior and superior in right to any other Person (except Liens permitted by Section 6.2).

### 3.20. Solvency. Each Loan Party is, and after giving effect to the

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incurrence of all Indebtedness and obligations being incurred in connection herewith will be and will continue to be, Solvent.

## SECTION 4. CONDITIONS PRECEDENT

## 4.1. Conditions to Initial Extension of Credit. The agreement of each

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 Lender to make the initial extension of credit requested to be made by it is subject to the satisfaction, prior to or concurrently with the making of such extension of credit on the Closing Date, of the following conditions precedent:

## (a) Credit Agreement; KGE Collateral Agreement. (i) The Administrative

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 Agent shall have received this Agreement or, in the case of the Lenders other than JPMorgan Chase Bank, Citibank, N.A. and Bank of America, N.A., an Addendum, executed and delivered by the Administrative Agent, the Borrower and each Person listed on Schedule 1.1 and (ii) the Collateral Agent shall have received the KGE Collateral Agreement, executed and delivered by the Collateral Agent, the Borrower and KGE.

In the event that any one or more Persons listed on Schedule 1.1 have not executed and delivered an Addendum on the date scheduled to be the Closing Date (each such Person being referred to herein as a "Non-Executing

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 Person"), the condition referred to in clause (i) above shall nevertheless

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 be deemed satisfied if on such date the Borrower and the Administrative Agent shall have designated one or more Persons (the "Designated Lenders")

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 to assume, in the aggregate, all of the Commitments that would have been held by the Non-Executing Persons (subject to each such Designated Lender's consent and its execution and delivery of an Addendum). Schedule 1.1 shall automatically be deemed to be amended to reflect the respective Commitments of the Designated Lenders and the omission of the Non-Executing Persons as Lenders hereunder.

## (b) Termination of Existing Credit Facilities. (i) The Administrative

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 Agent shall have received satisfactory evidence that the Five-Year Agreement shall have been terminated and all amounts thereunder shall have been paid in full and (ii) satisfactory arrangements shall have been made for the termination of all Liens granted in connection therewith.

(c) Bond Repurchase. The Administrative Agent shall have received satisfactory evidence that the Borrower shall have irrevocably deposited funds with the trustee for the KGE Bonds for the purpose of making payments sufficient to pay in full all amounts (including, without limitation, principal, interest and premium, if any) owing in respect of the KGE Bonds when due (together with the transactions described in Section 4.1(b), the "Refinancing").

## (d) Capital Structure. The Administrative Agent shall have received a

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 certificate of the Borrower, dated the Closing Date, certifying that, after giving effect to the Transactions, (i) the total Indebtedness of the Borrower and its Subsidiaries shall not be greater than the total Indebtedness of the Borrower and its Subsidiaries prior to the consummation of the Transactions and (ii) the portion of the Indebtedness of the Borrower and its Subsidiaries allocated to the electric utility businesses of the Borrower and KGE shall not be greater than the portion of the Indebtedness of the Borrower and its Subsidiaries allocated to the electric utility businesses of the Borrower and KGE prior to the consummation of the Transactions.

## (e) Financial Statements. The Lenders shall have received (i) audited

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 consolidated financial statements of the Borrower for the 2001 fiscal year and (ii) unaudited interim consolidated financial statements of the Borrower for each quarterly period ended subsequent to the date of the latest applicable financial statements delivered pursuant to clause (ii) of this paragraph as to which such financial statements are available, and such financial statements shall not, in the reasonable judgment of the Lenders, reflect any material adverse change in the



consolidated financial condition of the Borrower, as reflected in the financial statements or projections contained in the Confidential Information Memorandum.

(f) Approvals. All governmental and third party approvals necessary

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(including, without limitation, from the Federal Energy Regulatory Commission ("FERC") and the State Corporation Commission of the State of Kansas (the "KCC")) in connection with the Transactions and the continuing operations of the Borrower and its Subsidiaries shall have been obtained and be in full force and effect, and all applicable waiting periods shall have expired without any action being taken or threatened by any competent authority that would restrain, prevent or otherwise impose adverse conditions on the Transactions.

(g) Lien Searches. The Administrative Agent shall have received the

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results of a recent Uniform Commercial Code search in the State of Kansas where assets of the Borrower or KGE are located, and such search shall reveal no Liens on any of the assets of the Borrower or KGE except for Liens permitted by Section 6.2 or discharged on or prior to the Closing Date pursuant to documentation satisfactory to the Administrative Agent.

(h) Fees. The Lenders and the Administrative Agent shall have received

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all fees required to be paid, and all expenses for which invoices have been presented (including the reasonable fees and expenses of legal counsel), on or before the Closing Date. All such amounts will be paid with proceeds of Loans made on the Closing Date and will be reflected in the funding instructions given by the Borrower to the Administrative Agent on or before the Closing Date.

(i) Closing Certificate. The Administrative Agent shall have received a

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certificate of each Loan Party, dated the Closing Date, substantially in the form of Exhibit A, with appropriate insertions and attachments.

(j) Legal Opinions. The Administrative Agent shall have received the

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following executed legal opinions:

(i) the legal opinion of the Vice President and Corporate Secretary of the Borrower;

(ii) the legal opinion of Cahill Gordon & Reindel with respect to the Collateral; and

(iii) the legal opinion of Morris, Laing, Evans, Brock & Kennedy, Chartered with respect to certain KCC matters.

Each such legal opinion shall cover such other matters incident to the transactions contemplated by this Agreement as the Administrative Agent may reasonably require.

(k) Pledged Bonds. The Collateral Agent under the KGE Collateral

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Agreement shall have received the certificates representing the first mortgage bonds pledged pursuant to the KGE Collateral Agreement, accompanied by appropriate endorsements and instruments.

(l) Filings, Registrations and Recordings. Each document (including any

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Uniform Commercial Code financing statement) required by the Security Documents or under law or reasonably requested by the Administrative Agent to be filed, registered or recorded in order to create in favor of the Administrative Agent, for the benefit of the Lenders, a perfected Lien on the Collateral described therein, ranking pari passu with any other holders of first mortgage bonds issued pursuant to the KGE Indenture and prior and superior in right to any other Person (other

than with respect to Liens expressly permitted by Section 6.2), shall be in proper form for filing, registration or recordation.

4.2. Conditions to Each Extension of Credit. The agreement of each

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Lender to make any extension of credit requested to be made by it on any date (including its initial extension of credit) is subject to the satisfaction of the following conditions precedent:

(a) Representations and Warranties. Each of the representations and

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warranties made by any Loan Party in or pursuant to the Loan Documents shall be true and correct in all material respects on and as of such date as if made on and as of such date.

(b) No Default. No Default or Event of Default shall have occurred and

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be continuing on such date or after giving effect to the extensions of credit requested to be made on such date.

(c) Other Documents. In the case of any extension of credit made on an

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Increased Facility Closing Date, the Administrative Agent shall have received such documents and information as it may reasonably request. Each borrowing by the Borrower hereunder shall constitute a representation and warranty by the Borrower as of the date of such extension of credit that the conditions contained in this Section 4.2 have been satisfied.

#### SECTION 5. AFFIRMATIVE COVENANTS

The Borrower hereby agrees that, so long as the Commitments remain in effect or any Loan or other amount is owing to any Lender or the Administrative Agent hereunder, it shall and shall cause each of its Significant Subsidiaries to:

5.1. Financial Statements, Reports, etc. In the case of the Borrower,

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furnish to the Administrative Agent (except, in the case of the financial statements referred to in paragraphs (a) and (b) below, to the extent such financial statements are contained in materials already delivered to the Administrative Agent pursuant to paragraph (d) below) with sufficient copies for each Lender:

(a) within 120 days after the end of each fiscal year, (i) its consolidated balance sheet and related statements of income and changes in financial position (or of cash flow, as appropriate), showing the financial condition of the Borrower and its consolidated Subsidiaries as of the close of such fiscal year and the results of its operations and the operations of such Subsidiaries during such year, all audited by Arthur Andersen LLP or other independent public accountants of recognized national standing acceptable to the Administrative Agent and accompanied by an opinion of such accountants (which shall not be qualified in any material respect) to the effect that such financial statements fairly present the financial condition and results of operations of the Borrower on a consolidated basis in accordance with generally accepted accounting principles consistently applied, and (ii) a consolidated balance sheet and related statements of income and changes in financial position (or of cash flow, as the case may be) for KGE as of the end of such fiscal year, showing the consolidated financial condition of KGE and its consolidated Subsidiaries as of the close of such fiscal year and the results of its operations and the operations of such Subsidiaries during such year, all certified by a Financial Officer of the Borrower as fairly presenting the consolidated financial condition and results of operations of KGE in accordance with generally accepted accounting principles consistently applied (except that so long as KGE shall be required to file with the SEC, or shall otherwise prepare, audited financial statements, any such financial statements of KGE shall be audited by

Arthur Andersen LLP or other independent public accountants of recognized national standing acceptable to the Administrative Agent and accompanied by an opinion of such accountants (which shall not be qualified in any material respect) to the effect that such financial statements fairly present the financial condition and results of operations of KGE on a consolidated basis in accordance with generally accepted accounting principles consistently applied);

(b) within 90 days after the end of each of the first three fiscal quarters of each fiscal year, (i) its consolidated balance sheet and related statements of income and changes in financial position, showing the financial condition of the Borrower and its consolidated Subsidiaries as of the close of such fiscal quarter and the results of its operations and the operations of such Subsidiaries during such fiscal quarter and the then elapsed portion of the fiscal year, all certified by one of its Financial Officers as fairly presenting the financial condition and results of operations of the Borrower and its consolidated Subsidiaries in accordance with generally accepted accounting principles consistently applied, subject to normal year-end audit adjustments and (ii) so long as KGE shall be required to file with the SEC, or shall otherwise prepare, such statements, the consolidated balance sheet and related statements of income and changes in financial condition of KGE and its consolidated Subsidiaries as of the close of such fiscal quarter and the results of their operations during such fiscal quarter and the then elapsed portion of the fiscal year, all certified by one of its Financial Officers as fairly presenting the financial condition and results of operations of KGE and its consolidated Subsidiaries in accordance with generally accepted accounting principles consistently applied, subject to normal year-end audit adjustments;

(c) concurrently with any delivery of financial statements under (a) or (b) above, a certificate of a Financial Officer of the Borrower who shall, if applicable, be the Financial Officer opining on or certifying such statements (i) certifying that no Event of Default or Default has occurred or, if such an Event of Default or Default has occurred, specifying the nature and extent thereof and any corrective action taken or proposed to be taken with respect thereto and (ii) setting forth computations in reasonable detail satisfactory to the Administrative Agent demonstrating compliance with the covenants contained in Section 6.1;

(d) promptly after the same become publicly available, copies of all regular and periodic reports filed by it or by KGE with the SEC or any Governmental Authority succeeding to any of or all the functions of said Commission; and

(e) promptly from time to time, such other information regarding the operations, business affairs and financial condition of the Borrower or any Significant Subsidiary or compliance with the terms of any Loan Document, as the Administrative Agent or any Lender may reasonably request.

#### 5.2. Payment of Obligations. Pay, discharge or otherwise satisfy at or

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before maturity or before they become delinquent, as the case may be, all its material obligations of whatever nature, except where the amount or validity thereof is currently being contested in good faith by appropriate proceedings and reserves in conformity with GAAP with respect thereto have been provided on the books of the relevant Group Member.

#### 5.3. Maintenance of Existence; Compliance. (a)(i) Preserve, renew and

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keep in full force and effect its organizational existence and (ii) take all reasonable action to maintain all rights, privileges and franchises necessary or desirable in the normal conduct of its business, except, in each case, as otherwise permitted by Section 6.3 and except in the City of Wichita, Kansas, and except, in the case of clause (ii) above, to the extent that failure to do so could not reasonably be expected to have a

Material Adverse Effect; and (b) comply with all Contractual Obligations and Requirements of Law except to the extent that failure to comply therewith could not, in the aggregate, reasonably be expected to have a Material Adverse Effect.

5.4. Maintenance of Property; Insurance. (a) Keep all property useful

and necessary in its business in good working order and condition, ordinary wear and tear excepted and (b) maintain with financially sound and reputable insurance companies insurance on all its property in at least such amounts and against at least such risks (and with such risk retention and self-insurance) as are usually insured against in the same general area by companies engaged in the same or a similar business.

5.5. Inspection of Property; Books and Records; Discussions. (a) Keep

proper books of records and account in which full, true and correct entries in conformity with GAAP and all Requirements of Law shall be made of all dealings and transactions in relation to its business and activities and (b) permit representatives of any Lender to visit and inspect any of its properties and examine and make abstracts from any of its relevant books and records at any reasonable time and as often as may reasonably be desired and to discuss the business, operations, properties and financial and other condition of the Borrower or any Significant Subsidiary with officers and employees of the Borrower or any Significant Subsidiary and with their independent certified public accountants.

5.6. Notices. Promptly give notice to the Administrative Agent and each

Lender of:

(a) the occurrence of any Default or Event of Default;

(b) any (i) default or event of default under any Contractual Obligation of any Group Member or (ii) litigation, investigation or proceeding that may exist at any time between any Group Member and any Governmental Authority, that in either case, if not cured or if adversely determined, as the case may be, could reasonably be expected to have a Material Adverse Effect;

(c) any litigation or proceeding affecting any Group Member (i) in which the amount involved is \$15,000,000 or more and not covered by insurance, (ii) in which injunctive or similar relief is sought and which could reasonably be expected to have a Material Adverse Effect or (iii) which relates to any Loan Document;

(d) the following events, as soon as possible and in any event within 30 days after the Borrower knows or has reason to know thereof: (i) the occurrence of any Reportable Event with respect to any Plan, a failure to make any required contribution to a Plan, the creation of any Lien in favor of the PBGC or a Plan or any withdrawal from, or the termination, Reorganization or Insolvency of, any Multiemployer Plan or (ii) the institution of proceedings or the taking of any other action by the PBGC or the Borrower or any Commonly Controlled Entity or any Multiemployer Plan with respect to the withdrawal from, or the termination, Reorganization or Insolvency of, any Plan; and

(e) any other development or event that has had or could reasonably be expected to have a Material Adverse Effect.

Each notice pursuant to this Section 5.6 shall be accompanied by a statement of a Responsible Officer setting forth details of the occurrence referred to therein and stating what action the relevant Group Member proposes to take with respect thereto.

5.7. Environmental Laws. (a) Comply in all material respects with, and

ensure compliance in all material respects by all tenants and subtenants, if any, with, all applicable

Environmental Laws, and obtain and comply in all material respects with and maintain, and ensure that all tenants and subtenants obtain and comply in all material respects with and maintain, any and all licenses, approvals, notifications, registrations or permits required by applicable Environmental Laws.

(b) Conduct and complete all investigations, studies, sampling and testing, and all remedial, removal and other actions required under Environmental Laws and promptly comply in all material respects with all lawful orders and directives of all Governmental Authorities regarding Environmental Laws, except to the extent that the failure to do so could not reasonably be expected to have a Material Adverse Effect.

5.8. Notice of Subsidiaries. Promptly from time to time notify the

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Administrative Agent of the existence of any Subsidiary with assets of \$50,000,000 or more which is not listed on Schedule 3.15, and furnish the Administrative Agent with an updated Schedule 3.15 setting forth the information required by Section 3.15 with respect to such Subsidiary.

#### SECTION 6. NEGATIVE COVENANTS

The Borrower hereby agrees that, so long as the Commitments remain in effect or any Loan or other amount is owing to any Lender or the Administrative Agent hereunder, it shall not, and shall not permit any of its Subsidiaries to, directly or indirectly:

6.1. Financial Condition Covenants.

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(a) Consolidated Leverage Ratio. Permit the Consolidated Leverage Ratio as at the last day of any period of four consecutive fiscal quarters of the Borrower (or, if less, the number of full fiscal quarters subsequent to the Closing Date) ending with any fiscal quarter set forth below to exceed the ratio set forth below opposite such fiscal quarter:

Fiscal Quarter	Consolidated Leverage Ratio
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Closing Date - 12/31/02	6.00 to 1.00
01/01/03 and thereafter	5.75 to 1.00

(b) Consolidated Interest Coverage Ratio. Permit the Consolidated Interest Coverage Ratio as at the last day of any period of four consecutive fiscal quarters of the Borrower (or, if less, the number of full fiscal quarters subsequent to the Closing Date) to be less than 2.00 to 1.00.

(c) Consolidated Debt to Capital Ratio. Permit the Consolidated Debt to Capital Ratio at any time to be greater than 0.65 to 1.00.

6.2. Liens. Create, incur, assume or suffer to exist any Lien upon any  
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of its property, whether now owned or hereafter acquired, except:

(a) Liens for taxes not yet due or that are being contested in good faith by appropriate proceedings, provided that adequate reserves with  
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respect thereto are maintained on the books of the Borrower or its Subsidiaries, as the case may be, in conformity with GAAP;

(b) carriers', warehousemen's, mechanics', materialmen's, repairmen's or other like Liens arising in the ordinary course of business that are not overdue for a period of more than 30 days or that are being contested in good faith by appropriate proceedings;

(c) pledges or deposits in connection with workers' compensation, unemployment insurance and other social security legislation;

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

(e) easements, rights-of-way, restrictions and other similar encumbrances incurred in the ordinary course of business that, in the aggregate, are not substantial in amount and that do not in any case materially detract from the value of the property subject thereto or materially interfere with the ordinary conduct of the business of the Borrower or any of its Subsidiaries;

(f) Liens in existence on the date hereof listed on Schedule 6.2(f), securing Indebtedness and any refinancings, refundings, renewals or extensions of such Indebtedness, provided that no such Lien is spread to

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cover any additional property after the Closing Date (other than pursuant to the Indentures) and that the amount of Indebtedness secured thereby is not increased, except as otherwise permitted by this Agreement;

(g) Liens not otherwise permitted by this Section 6.2 securing Indebtedness (including, without limitation, Capital Lease Obligations) of the Borrower or any other Subsidiary in an aggregate principal amount not to exceed \$10,000,000 at any one time outstanding and incurred to finance the acquisition of fixed or capital assets, provided that (i) such Liens

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shall be created substantially simultaneously with the acquisition of such fixed or capital assets, (ii) such Liens do not at any time encumber any property other than the property financed by such Indebtedness and (iii) the amount of Indebtedness secured thereby is not increased;

(h) Liens created pursuant to the Security Documents;

(i) any interest or title of a lessor under any lease entered into by the Borrower or any other Subsidiary in the ordinary course of its business and covering only the assets so leased;

(j) Liens on the assets of Westar Industries or its direct or indirect Subsidiaries;

(k) Liens not otherwise permitted by this Section so long as neither (i) the aggregate outstanding principal amount of the obligations secured thereby nor (ii) the aggregate fair market value (determined as of the date such Lien is incurred) of the assets subject thereto exceeds (as to the Borrower and all Subsidiaries) \$5,000,000 at any one time; and

(l) "Permitted liens", as such term is defined in each Indenture.

6.3. Fundamental Changes. Consummate any merger, consolidation or  
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amalgamation, or liquidate, wind up or dissolve itself (or suffer any liquidation or dissolution), or Dispose of all or substantially all of its property or business, except that:

(a) any Subsidiary of the Borrower may be merged or consolidated with or into the Borrower (provided that the Borrower shall be the continuing or  
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surviving corporation);

(b) any Subsidiary of the Borrower may Dispose of any or all of its assets (i) to the Borrower or to any Wholly Owned Subsidiary of the Borrower (upon voluntary liquidation or otherwise) or (ii) pursuant to a Disposition permitted by Section 6.4;

(c) transactions not involving the Borrower or a Significant Subsidiary or any of their respective assets (other than the Capital Stock of the Subsidiary involved in such a transaction) may be consummated; and

(d) transactions involving Westar Industries and its Subsidiaries (subject to compliance with Section 6.4), but not involving the Borrower or any of its Subsidiaries other than Westar Industries and its Subsidiaries, may be consummated.

6.4. Disposition of Property. Dispose of any of its property, whether

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now owned or hereafter acquired, or, in the case of any Subsidiary, issue or sell any shares of such Subsidiary's Capital Stock to any Person, except:

(a) the Disposition of obsolete or worn out property in the ordinary course of business;

(b) the sale of inventory in the ordinary course of business;

(c) Dispositions permitted by clause (i) of Section 6.3(b);

(d) the sale or issuance of (i) any Subsidiary's Capital Stock to the Borrower or to a Wholly Owned Subsidiary of the Borrower or (ii) the Capital Stock of Protection One pursuant to its employee benefit or incentive plans in accordance with past practice;

(e) the Disposition (i) of the Capital Stock of Westar Industries and (ii) by Westar Industries of its property (including, without limitation, the Capital Stock of ONEOK, Inc.), so long as the Net Cash Proceeds of any Disposition described in this Section 6.4(e) are applied in accordance with Section 2.9 (other than Dispositions permitted under Section 6.4(h));

(f) the Disposition of accounts receivable pursuant to customary terms of the instruments governing the Existing Accounts Receivable Financing;

(g) the Disposition of property set forth on Schedule 6.4(g);

(h) (i) the sale or issuance of the Capital Stock of Protection One, Protection One International, Inc. or Protection One Investments, Inc. or (ii) the sale of the property of Protection One, Protection One International, Inc. or Protection One Investments, Inc. or their respective direct or indirect Subsidiaries, so long as the Net Cash Proceeds of any such sale or issuance of Capital Stock or sale of property are (A) reinvested in the business of Protection One, Protection One International Inc. or Protection One Investments, Inc., as applicable, to the extent required in the applicable debt instruments of Protection One, Protection One International Inc. or Protection One Investments, Inc. or (B) used to repay or repurchase Indebtedness;

(i) the Disposition of other property having a fair market value not to exceed \$15,000,000 in the aggregate for any fiscal year of the Borrower;

(j) the Disposition of other property (other than all or substantially all of the property of the electric utility business of the Borrower or KGE) for fair market value so long as the Net Cash Proceeds of any such Disposition are applied in accordance with Section 2.9; and

(k) Dispositions pursuant to Requirements of Law so long as the Net Cash Proceeds of any such Disposition are applied in accordance with Section 2.9.

6.5. Restricted Payments. Declare or pay any dividend (other than  
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dividends payable solely in common stock of the Person making such dividend) on, or make any payment on account of, or set apart assets for a sinking or other analogous fund for, the purchase, redemption, defeasance, retirement or other acquisition of, any Capital Stock of any Group Member, whether now or hereafter outstanding, or make any other distribution in respect thereof, either directly or indirectly, whether in cash or property or in obligations of any Group Member (collectively, "Restricted Payments"), except that:

(a) any Subsidiary may make Restricted Payments to the Borrower or to another Subsidiary;

(b) so long as no Default or Event of Default shall have occurred and be continuing, the Borrower and its Subsidiaries may make Restricted Payments consistent with past practice, so long as such Restricted Payments do not exceed (i) \$90,000,000 in any fiscal year after giving effect to shareholder reinvestment or (ii) \$125,000,000, after giving effect to shareholder reinvestment, in any fiscal year upon the Borrower owning less than 80% of the common stock of Westar Industries; provided, however, that the Restricted Payments permitted under Section 6.5(b)(i) and 6.5(b)(ii) shall be increased by \$3,500,000 for each \$50,000,000 of common stock issued pursuant to a public offering of the Borrower's common stock;

(c) Protection One may purchase its Capital Stock in accordance with its share repurchase programs in effect from time to time and in accordance with its contractual obligations as in existence on the Closing Date;

(d) each of the Borrower and Protection One may purchase its Capital Stock pursuant to its employee benefit or incentive plans in accordance with past practice;

(e) the Borrower may make Restricted Payments to the extent required by the terms of the Mandatorily Redeemable Preferred Securities existing on the Closing Date;

(f) the Borrower may repurchase its Preferred Stock existing on the Closing Date in an aggregate amount not to exceed \$26,000,000;

(g) the Borrower may make distributions of part or all of the business of Protection One or Protection One Europe to holders of the Borrower's Capital Stock; and

(h) Westar Industries and its Subsidiaries may make Restricted Payments.

6.6. Capital Expenditures. Make or commit to make any Capital  
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Expenditure, except:

(a) Capital Expenditures by Westar Industries and its direct or indirect Subsidiaries;

(b) Capital Expenditures by the Borrower (other than in connection with Section 6.6(a) above) and KGE in the ordinary course of business not exceeding the amount set forth below for each of the fiscal years of the Borrower set forth below:

Fiscal Year -----	Amount -----
2002	\$165,000,000
2003	\$200,000,000
2004	\$200,000,000
2005	\$190,000,000



provided, that (i) up to 50% of any such amount, if not so expended in the

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 fiscal year for which it is permitted, may be carried over for expenditure in the next succeeding fiscal year and (ii) Capital Expenditures made during any fiscal year shall be deemed made, first, in respect of amounts permitted for such fiscal year as provided above and, second, in respect of amounts carried over from the prior fiscal year pursuant to subclause (i) above; and

(c) Capital Expenditures made by any Group Member upon the occurrence of a catastrophic event to meet its regulatory obligations to continue to provide service.

6.7. Investments. Make any advance, loan, extension of credit (by way

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 of guaranty or otherwise) or capital contribution to, or purchase any Capital Stock, bonds, notes, debentures or other debt securities of, or any assets constituting a business unit of, or make any other investment in, any other Person (all of the foregoing, "Investments"), except:

(a) extensions of trade credit in the ordinary course of business;

(b) investments in Cash Equivalents;

(c) Guarantee Obligations;

(d) loans and advances to employees of any Group Member in the ordinary course of business (including for travel, entertainment and relocation expenses) in an aggregate amount for all Group Members not to exceed \$15,000,000 at any one time outstanding;

(e) Investments by the Borrower in KGE;

(f) Investments by Westar Industries and its direct or indirect Subsidiaries;

(g) repurchases of the 2003 Bonds and/or the 2004 Bonds. Such repurchases may be made (i) directly by the Borrower or (ii) by way of the Borrower purchasing such instruments from Westar Industries, Inc. after Westar Industries, Inc. has directly repurchased such instruments, so long as (x) the amount paid by the Borrower to Westar Industries, Inc. in connection with such purchase by the Borrower from Westar Industries, Inc. does not exceed the amount paid by Westar Industries, Inc. in directly repurchasing such instruments and (y) such arrangements will not result in the violation of any law, statute, rule, regulation or order of any court, governmental agency or body (including, without limitation, the KCC);

(h) Investments by the Borrower in a Subsidiary pursuant to customary terms of the instruments governing the Existing Accounts Receivable Financing; and

(i) in addition to Investments otherwise expressly permitted by this Section, Investments by the Borrower or any of its Subsidiaries other than in Westar Industries or its direct or indirect Subsidiaries in an aggregate amount (valued at cost) not to exceed \$15,000,000 during the term of this Agreement.

6.8. Modifications of Certain Capital Stock Instruments. Amend, modify,

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 waive or otherwise change, or consent or agree to any amendment, modification, waiver or other change to, any of the terms of the Capital Stock listed on Schedule 6.8 (other than any such amendment, modification, waiver or other change that (i) would extend the scheduled redemption date or reduce the amount of any scheduled redemption payment or reduce the rate or extend any date for payment of dividends thereon and (ii) does not involve the payment of a consent fee).

6.9. Transactions with Affiliates. Other than (a) shared services  
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agreements with Protection One or its direct or indirect Subsidiaries in accordance with past practice and (b) a proposed agreement related to the outsourcing of the Borrower's information technology services to Protection One or its direct or indirect Subsidiaries (it being understood that any such agreement shall not be adverse to the interests of the Lenders), enter into any transaction, including any purchase, sale, lease or exchange of property, the rendering of any service or the payment of any management, advisory or similar fees, with any Affiliate (other than the Borrower) unless such transaction is (x) otherwise permitted under this Agreement, (y) in the ordinary course of business of the relevant Group Member, and (z) upon fair and reasonable terms no less favorable to the relevant Group Member than it would obtain in a comparable arm's length transaction with a Person that is not an Affiliate.

6.10. Negative Pledge Clauses. Enter into or suffer to exist or become  
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effective any agreement that prohibits or limits the ability of any Loan Party to create, incur, assume or suffer to exist any Lien upon any of its property or revenues, whether now owned or hereafter acquired, other than (a) this Agreement and the other Loan Documents, (b) any agreements governing any purchase money Liens or Capital Lease Obligations otherwise permitted hereby (in which case, any prohibition or limitation shall only be effective against the assets financed thereby), (c) agreements in existence on the Closing Date and (d) ordinary course arrangements not affecting material property.

6.11. Clauses Restricting Subsidiary Distributions. Enter into or  
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suffer to exist or become effective any consensual encumbrance or restriction on the ability of any Significant Subsidiary of the Borrower to (a) make Restricted Payments in respect of any Capital Stock of such Significant Subsidiary held by, or pay any Indebtedness owed to, the Borrower or any other Subsidiary of the Borrower, (b) make loans or advances to, or other Investments in, the Borrower or any other Subsidiary of the Borrower or (c) transfer any of its assets to the Borrower or any other Subsidiary of the Borrower, except for such encumbrances or restrictions existing under or by reason of (i) any restrictions existing under the Loan Documents, (ii) any restrictions with respect to a Significant Subsidiary imposed pursuant to an agreement that has been entered into in connection with the disposition of all or substantially all of the Capital Stock or assets of such Significant Subsidiary, (iii) the customary terms of the instruments governing the Existing Accounts Receivable Financing and (iv) Requirements of Law.

6.12. Lines of Business. Enter into any business, either directly or  
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through any Subsidiary, except for those businesses in which the Borrower and its Subsidiaries are engaged on the date of this Agreement or that are reasonably related thereto.

6.13. Ownership of KGE. Permit any issued and outstanding Capital Stock  
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of KGE to be owned directly or indirectly, beneficially or of record, by any person other than the Borrower, or permit KGE to issue or have outstanding any rights, warrants, options or convertible or exchangeable securities entitling the holders thereof, conditionally or unconditionally, to purchase, subscribe for or otherwise receive shares of Capital Stock of KGE.

6.14. Swap Agreements. Enter into any Swap Agreement, except (a) Swap  
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Agreements entered into to hedge or mitigate risks to which the Borrower or any Subsidiary has actual exposure (other than those in respect of Capital Stock) and, in each case, in amounts not to exceed 100% of such exposure and (b) Swap Agreements entered into in order to effectively cap, collar or exchange interest rates (from fixed to floating rates, from one floating rate to another floating rate or otherwise) with respect to any interest-bearing liability or investment of the Borrower or any Subsidiary; provided that the net payment obligations of the Borrower and its Subsidiaries with respect to Swap Agreements that cap, collar or exchange interest rates from fixed rates to floating rates shall not exceed \$10,000,000 at any one time.

## SECTION 7. EVENTS OF DEFAULT

If any of the following events shall occur and be continuing:

(a) the Borrower shall fail to pay any principal of any Loan when due in accordance with the terms hereof; or the Borrower shall fail to pay any interest on any Loan, or any other amount payable hereunder or under any other Loan Document, within five days after any such interest or other amount becomes due in accordance with the terms hereof; or

(b) any representation or warranty made or deemed made by any Loan Party herein or in any other Loan Document or that is contained in any certificate, document or financial or other statement furnished by it at any time under or in connection with this Agreement or any such other Loan Document shall prove to have been inaccurate in any material respect on or as of the date made or deemed made; or

(c) any Loan Party shall default in the observance or performance of any agreement contained in clause (i) or (ii) of Section 5.3(a) (with respect to the Borrower and KGE only), Section 5.6(a) or Section 6 of this Agreement; or

(d) any Loan Party shall default in the observance or performance of any other agreement contained in this Agreement or any other Loan Document (other than as provided in paragraphs (a) through (c) of this Section), and such default shall continue unremedied for a period of 30 days after notice to the Borrower from the Administrative Agent or the Required Lenders; or

(e) the Borrower or any Significant Subsidiary shall (i) default in making any payment of any principal of any Indebtedness (including any Guarantee Obligation, but excluding the Loans) on the scheduled or original due date with respect thereto; or (ii) default in making any payment of any interest on any such Indebtedness beyond the period of grace, if any, provided in the instrument or agreement under which such Indebtedness was created; or (iii) default in the observance or performance of any other agreement or condition relating to any such Indebtedness or contained in any instrument or agreement evidencing, securing or relating thereto, or any other event shall occur or condition exist, the effect of which default or other event or condition is to cause, or to permit the holder or beneficiary of such Indebtedness (or a trustee or agent on behalf of such holder or beneficiary) to cause, with the giving of notice if required, such Indebtedness to become due prior to its stated maturity or (in the case of any such Indebtedness constituting a Guarantee Obligation) to become payable; provided, that a default, event or condition described in

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 clause (i), (ii) or (iii) of this paragraph (e) shall not at any time constitute an Event of Default unless, at such time, one or more defaults, events or conditions of the type described in clauses (i), (ii) and (iii) of this paragraph (e) shall have occurred and be continuing with respect to Indebtedness the outstanding principal amount of which exceeds in the aggregate \$25,000,000; or

(f) (i) the Borrower or any Significant Subsidiary shall commence any case, proceeding or other action (A) under any existing or future law of any jurisdiction, domestic or foreign, relating to bankruptcy, insolvency, reorganization or relief of debtors, seeking to have an order for relief entered with respect to it, or seeking to adjudicate it a bankrupt or insolvent, or seeking reorganization, arrangement, adjustment, winding-up, liquidation, dissolution, composition or other relief with respect to it or its debts, or (B) seeking appointment of a receiver, trustee, custodian, conservator or other similar official for it or for all or any substantial part of its assets, or the Borrower or any Significant Subsidiary shall make a general assignment for the benefit of its creditors; or (ii) there shall be commenced against the Borrower or any Significant

Subsidiary any case, proceeding or other action of a nature referred to in clause (i) above that (A) results in the entry of an order for relief or any such adjudication or appointment or (B) remains undismissed, undischarged or unbonded for a period of 60 days; or (iii) there shall be commenced against the Borrower or any Significant Subsidiary any case, proceeding or other action seeking issuance of a warrant of attachment, execution, distraint or similar process against all or any substantial part of its assets that results in the entry of an order for any such relief that shall not have been vacated, discharged, or stayed or bonded pending appeal within 60 days from the entry thereof; or (iv) the Borrower or any Significant Subsidiary shall take any action in furtherance of, or indicating its consent to, approval of, or acquiescence in, any of the acts set forth in clause (i), (ii), or (iii) above; or (v) the Borrower or any Significant Subsidiary shall generally not, or shall be unable to, or shall admit in writing its inability to, pay its debts as they become due; or

(g) (i) any Person shall engage in any "prohibited transaction" (as defined in Section 406 of ERISA or Section 4975 of the Code) involving any Plan, (ii) any "accumulated funding deficiency" (as defined in Section 302 of ERISA), whether or not waived, shall exist with respect to any Plan or any Lien in favor of the PBGC or a Plan shall arise on the assets of the Borrower or any Commonly Controlled Entity, (iii) a Reportable Event shall occur with respect to, or proceedings shall commence to have a trustee appointed, or a trustee shall be appointed, to administer or to terminate, any Single Employer Plan, which Reportable Event or commencement of proceedings or appointment of a trustee is, in the reasonable opinion of the Required Lenders, likely to result in the termination of such Plan for purposes of Title IV of ERISA, (iv) any Single Employer Plan shall terminate for purposes of Title IV of ERISA, (v) the Borrower or any Commonly Controlled Entity shall, or in the reasonable opinion of the Required Lenders is likely to, incur any liability in connection with a withdrawal from, or the Insolvency or Reorganization of, a Multiemployer Plan or (vi) any other event or condition shall occur or exist with respect to a Plan; and in each case in clauses (i) through (vi) above, such event or condition, together with all other such events or conditions, if any, could, in the sole judgment of the Required Lenders, reasonably be expected to have a Material Adverse Effect; or

(h) one or more judgments or decrees shall be entered against the Borrower or any Significant Subsidiary involving in the aggregate a liability (not paid or to the extent not covered by insurance as to which the relevant insurance company has acknowledged coverage) of \$25,000,000 or more, and all such judgments or decrees shall not have been vacated, discharged, stayed or bonded pending appeal within 30 days from the entry thereof; or

(i) any of the Security Documents shall cease, for any reason, to be in full force and effect, or any Loan Party or any Affiliate of any Loan Party shall so assert, or any Lien created by any of the Security Documents shall cease to be enforceable and of the same effect and priority purported to be created thereby; or

(j) the guarantee contained in Section 2 of the KGE Collateral Agreement shall cease, for any reason, to be in full force and effect or any Loan Party or any Affiliate of any Loan Party shall so assert; or

(k) a Change in Control shall occur;

then, and in any such event, (A) if such event is an Event of Default specified in clause (i) or (ii) of paragraph (f) above with respect to the Borrower, automatically the Commitments shall immediately terminate and the Loans (with accrued interest thereon) and all other amounts owing under this Agreement and the other Loan Documents shall immediately become due and payable, and (B) if such event is any other Event of Default, either or both of the following actions may be taken: (i) with the

consent of the Required Lenders, the Administrative Agent may, or upon the request of the Required Lenders, the Administrative Agent shall, by notice to the Borrower declare the Revolving Commitments to be terminated forthwith, whereupon the Revolving Commitments shall immediately terminate; and (ii) with the consent of the Required Lenders, the Administrative Agent may, or upon the request of the Required Lenders, the Administrative Agent shall, by notice to the Borrower, declare the Loans (with accrued interest thereon) and all other amounts owing under this Agreement and the other Loan Documents to be due and payable forthwith, whereupon the same shall immediately become due and payable. Except as expressly provided above in this Section, presentment, demand, protest and all other notices of any kind are hereby expressly waived by the Borrower.

#### SECTION 8. THE AGENTS

##### 8.1. Appointment. Each Lender hereby irrevocably designates and

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appoints the Administrative Agent as the agent of such Lender under this Agreement and the other Loan Documents, and each such Lender irrevocably authorizes the Administrative Agent, in such capacity, to take such action on its behalf under the provisions of this Agreement and the other Loan Documents and to exercise such powers and perform such duties as are expressly delegated to the Administrative Agent by the terms of this Agreement and the other Loan Documents, together with such other powers as are reasonably incidental thereto. Notwithstanding any provision to the contrary elsewhere in this Agreement, the Administrative Agent shall not have any duties or responsibilities, except those expressly set forth herein, or any fiduciary relationship with any Lender, and no implied covenants, functions, responsibilities, duties, obligations or liabilities shall be read into this Agreement or any other Loan Document or otherwise exist against the Administrative Agent.

##### 8.2. Delegation of Duties. The Administrative Agent may execute any of

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its duties under this Agreement and the other Loan Documents by or through agents or attorneys-in-fact and shall be entitled to advice of counsel concerning all matters pertaining to such duties. The Administrative Agent shall not be responsible for the negligence or misconduct of any agents or attorneys in-fact selected by it with reasonable care.

##### 8.3. Exculpatory Provisions. None of the Agents nor any of its

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respective officers, directors, employees, agents, attorneys-in-fact or affiliates shall be (i) liable for any action lawfully taken or omitted to be taken by it or such Person under or in connection with this Agreement or any other Loan Document (except to the extent that any of the foregoing are found by a final and nonappealable decision of a court of competent jurisdiction to have resulted from its or such Person's own gross negligence or willful misconduct) or (ii) responsible in any manner to any of the Lenders for any recitals, statements, representations or warranties made by any Loan Party or any officer thereof contained in this Agreement or any other Loan Document or in any certificate, report, statement or other document referred to or provided for in, or received by the Agents under or in connection with, this Agreement or any other Loan Document or for the value, validity, effectiveness, genuineness, enforceability or sufficiency of this Agreement or any other Loan Document or for any failure of any Loan Party a party thereto to perform its obligations hereunder or thereunder. The Agents shall not be under any obligation to any Lender to ascertain or to inquire as to the observance or performance of any of the agreements contained in, or conditions of, this Agreement or any other Loan Document, or to inspect the properties, books or records of any Loan Party.

##### 8.4. Reliance by Administrative Agent. The Administrative Agent shall

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be entitled to rely, and shall be fully protected in relying, upon any instrument, writing, resolution, notice, consent, certificate, affidavit, letter, telecopy, telex or teletype message, statement, order or other document or conversation believed by it to be genuine and correct and to have been signed, sent or made by the proper Person or Persons and upon advice and statements of legal counsel (including counsel to the Borrower),

independent accountants and other experts selected by the Administrative Agent. The Administrative Agent may deem and treat the payee of any Note as the owner thereof for all purposes unless a written notice of assignment, negotiation or transfer thereof shall have been filed with the Administrative Agent. The Administrative Agent shall be fully justified in failing or refusing to take any action under this Agreement or any other Loan Document unless it shall first receive such advice or concurrence of the Required Lenders (or, if so specified by this Agreement, all Lenders) as it deems appropriate or it shall first be indemnified to its satisfaction by the Lenders against any and all liability and expense that may be incurred by it by reason of taking or continuing to take any such action. The Administrative Agent shall in all cases be fully protected in acting, or in refraining from acting, under this Agreement and the other Loan Documents in accordance with a request of the Required Lenders (or, if so specified by this Agreement, all Lenders), and such request and any action taken or failure to act pursuant thereto shall be binding upon all the Lenders and all future holders of the Loans.

8.5. Notice of Default. The Administrative Agent shall not be deemed to

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 have knowledge or notice of the occurrence of any Default or Event of Default unless the Administrative Agent has received notice from a Lender or the Borrower referring to this Agreement, describing such Default or Event of Default and stating that such notice is a "notice of default". In the event that the Administrative Agent receives such a notice, the Administrative Agent shall give notice thereof to the Lenders. The Administrative Agent shall take such action with respect to such Default or Event of Default as shall be reasonably directed by the Required Lenders (or, if so specified by this Agreement, all Lenders); provided that unless and until the Administrative Agent shall have received such directions, the Administrative Agent may (but shall not be obligated to) take such action, or refrain from taking such action, with respect to such Default or Event of Default as it shall deem advisable in the best interests of the Lenders.

8.6. Non-Reliance on Agents and Other Lenders. Each Lender expressly

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 acknowledges that none of the Agents nor any of their respective officers, directors, employees, agents, attorneys-in-fact or affiliates have made any representations or warranties to it and that no act by any Agent hereafter taken, including any review of the affairs of a Loan Party or any affiliate of a Loan Party, shall be deemed to constitute any representation or warranty by any Agent to any Lender. Each Lender represents to the Agents that it has, independently and without reliance upon any Agent or any other Lender, and based on such documents and information as it has deemed appropriate, made its own appraisal of and investigation into the business, operations, property, financial and other condition and creditworthiness of the Loan Parties and their affiliates and made its own decision to make its Loans hereunder and enter into this Agreement. Each Lender also represents that it will, independently and without reliance upon any Agent or any other Lender, and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit analysis, appraisals and decisions in taking or not taking action under this Agreement and the other Loan Documents, and to make such investigation as it deems necessary to inform itself as to the business, operations, property, financial and other condition and creditworthiness of the Loan Parties and their affiliates. Except for notices, reports and other documents expressly required to be furnished to the Lenders by the Administrative Agent hereunder, the Administrative Agent shall not have any duty or responsibility to provide any Lender with any credit or other information concerning the business, operations, property, condition (financial or otherwise), prospects or creditworthiness of any Loan Party or any affiliate of a Loan Party that may come into the possession of the Administrative Agent or any of its officers, directors, employees, agents, attorneys-in-fact or affiliates.

8.7. Indemnification. The Lenders agree to indemnify each Agent in its

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 capacity as such (to the extent not reimbursed by the Borrower and without limiting the obligation of the Borrower to do so), ratably according to their respective Aggregate Exposure Percentages in effect on the date on which indemnification is sought under this Section (or, if indemnification is sought after the date upon which the Commitments shall have terminated and the Loans shall have been paid in full, ratably in

accordance with such Aggregate Exposure Percentages immediately prior to such date), from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind whatsoever that may at any time (whether before or after the payment of the Loans) be imposed on, incurred by or asserted against such Agent in any way relating to or arising out of, the Commitments, this Agreement, any of the other Loan Documents or any documents contemplated by or referred to herein or therein or the transactions contemplated hereby or thereby or any action taken or omitted by such Agent under or in connection with any of the foregoing; provided that no Lender shall be liable for the payment of any portion of such liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements that are found by a final and nonappealable decision of a court of competent jurisdiction to have resulted from such Agent's gross negligence or willful misconduct. The agreements in this Section shall survive the payment of the Loans and all other amounts payable hereunder.

8.8. Agent in Its Individual Capacity. Each Agent and its affiliates

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may make loans to, accept deposits from and generally engage in any kind of business with any Loan Party as though such Agent were not an Agent. With respect to its Loans made or renewed by it, each Agent shall have the same rights and powers under this Agreement and the other Loan Documents as any Lender and may exercise the same as though it were not an Agent, and the terms "Lender" and "Lenders" shall include each Agent in its individual capacity.

8.9. Successor Administrative Agent. The Administrative Agent may

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resign as Administrative Agent upon 10 days' notice to the Lenders and the Borrower. If the Administrative Agent shall resign as Administrative Agent under this Agreement and the other Loan Documents, then the Required Lenders shall appoint from among the Lenders a successor agent for the Lenders, which successor agent shall (unless an Event of Default under Section 7(a) or Section 7(f) with respect to the Borrower shall have occurred and be continuing) be subject to approval by the Borrower (which approval shall not be unreasonably withheld or delayed), whereupon such successor agent shall succeed to the rights, powers and duties of the Administrative Agent, and the term "Administrative Agent" shall mean such successor agent effective upon such appointment and approval, and the former Administrative Agent's rights, powers and duties as Administrative Agent shall be terminated, without any other or further act or deed on the part of such former Administrative Agent or any of the parties to this Agreement or any holders of the Loans. If no successor agent has accepted appointment as Administrative Agent by the date that is 10 days following a retiring Administrative Agent's notice of resignation, the retiring Administrative Agent's resignation shall nevertheless thereupon become effective and the Lenders shall assume and perform all of the duties of the Administrative Agent hereunder until such time, if any, as the Required Lenders appoint a successor agent as provided for above. After any retiring Administrative Agent's resignation as Administrative Agent, the provisions of this Section 8 shall inure to its benefit as to any actions taken or omitted to be taken by it while it was Administrative Agent under this Agreement and the other Loan Documents.

8.10. Documentation Agent and Syndication Agent. Neither the

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Documentation Agent nor the Syndication Agent shall have any duties or responsibilities hereunder in its capacity as such.

SECTION 9. MISCELLANEOUS

9.1. Amendments and Waivers. Neither this Agreement, any other Loan

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Document, nor any terms hereof or thereof may be amended, supplemented or modified except in accordance with the provisions of this Section 9.1. The Required Lenders and each Loan Party party to the relevant Loan Document may, or, with the written consent of the Required Lenders, the Administrative Agent and each Loan Party party to the relevant Loan Document may, from time to time, (a) enter into written amendments, supplements or modifications hereto and to the other Loan Documents for the purpose of

adding any provisions to this Agreement or the other Loan Documents or changing in any manner the rights of the Lenders or of the Loan Parties hereunder or thereunder or (b) waive, on such terms and conditions as the Required Lenders or the Administrative Agent, as the case may be, may specify in such instrument, any of the requirements of this Agreement or the other Loan Documents or any Default or Event of Default and its consequences; provided, however, that no

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such waiver and no such amendment, supplement or modification shall (i) forgive the principal amount or extend the final scheduled date of maturity of any Loan, extend the scheduled date of any amortization payment in respect of any Term Loan, reduce the stated rate of any interest or fee payable hereunder (except (x) in connection with the waiver of applicability of any post-default increase in interest rates (which waiver shall be effective with the consent of the Majority Facility Lenders of each adversely affected Facility) and (y) that any amendment or modification of defined terms used in the financial covenants in this Agreement shall not constitute a reduction in the rate of interest or fees for purposes of this clause (i)) or extend the scheduled date of any payment thereof, increase the amount of the Term Commitment or Revolving Commitment of any Lender, or extend the expiration date of any Lender's Revolving Commitment, in each case without the written consent of each Lender directly affected thereby; (ii) eliminate or reduce the voting rights of any Lender under this Section 9.1 without the written consent of such Lender; (iii) reduce any percentage specified in the definition of Required Lenders or Supermajority Lenders, consent to the assignment or transfer by the Borrower or KGE of any of its rights and obligations under this Agreement and the other Loan Documents, release all or substantially all of the Collateral, or release KGE from its guarantee under the KGE Collateral Agreement, in each case without the written consent of all Lenders; (iv) reduce the percentage specified in the definition of Majority Facility Lenders with respect to any Facility without the written consent of all Lenders under such Facility; (v) amend, modify or waive any provision of Section 8 without the written consent of the Administrative Agent; (vi) release any of the Collateral, amend, modify or waive any provision of Section 6(e) of the KGE Collateral Agreement, or increase the amount specified in the definition of "Secured Agreement" in the KGE Collateral Agreement, in each case without the written consent of the Supermajority Lenders; (vii) amend, modify or waive any provision of Section 2.15(a), (b) or (c) or Section 9.7(a) without the written consent of each Lender directly affected thereby; (viii) amend, modify or waive any provision of Section 2.9 in a manner that adversely affects the Lenders under a particular Facility without the written consent of the Majority Facility Lenders of such Facility; or (ix) waive any of the conditions contained in Section 4.2, or otherwise amend, modify or waive any provision of any Loan Document the effect of which is to allow any of the conditions contained in Section 4.2 to be met that, but for such amendment, modification or waiver, would not have been met, in each case without the written consent of the Majority Facility Lenders with respect to the Revolving Facility. Any such waiver and any such amendment, supplement or modification shall apply equally to each of the Lenders and shall be binding upon the Loan Parties, the Lenders, the Administrative Agent and all future holders of the Loans. In the case of any waiver, the Loan Parties, the Lenders and the Administrative Agent shall be restored to their former position and rights hereunder and under the other Loan Documents, and any Default or Event of Default waived shall be deemed to be cured and not continuing; but no such waiver shall extend to any subsequent or other Default or Event of Default, or impair any right consequent thereon.

For the avoidance of doubt, this Agreement may be amended (or amended and restated) with the written consent of the Required Lenders, the Administrative Agent and the Borrower (a) to add one or more additional credit facilities to this Agreement and to permit the extensions of credit from time to time outstanding thereunder and the accrued interest and fees in respect thereof (collectively, the "Additional Extensions of Credit") to share ratably in the

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benefits of this Agreement and the other Loan Documents with the Loans and the accrued interest and fees in respect thereof and (b) to include appropriately the Lenders holding such credit facilities in any determination of the Required Lenders and the Supermajority Lenders.



9.2. Notices. All notices, requests and demands to or upon the

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respective parties hereto to be effective shall be in writing (including by telecopy), and, unless otherwise expressly provided herein, shall be deemed to have been duly given or made when delivered, or three Business Days after being deposited in the mail, postage prepaid, or, in the case of telecopy notice, when received, addressed as follows in the case of the Borrower and the Administrative Agent, and as set forth in an administrative questionnaire delivered to the Administrative Agent in the case of the Lenders, or to such other address as may be hereafter notified by the respective parties hereto:

The Borrower:                               818 South Kansas Avenue  
Topeka, Kansas 66612  
Attention: Chief Financial Officer  
Telecopy: 785-575-1936  
Telephone: 785-575-1987

with copy to:                               Western Resources, Inc.  
818 South Kansas Avenue  
Topeka, Kansas 66612  
Attention: Vice President and  
                                          Corporate Secretary  
Telecopy: 785-575-1936  
Telephone: 785-575-1625

The Administrative Agent:               c/o Loan and Agency Services Group  
One Chase Manhattan Plaza, Eighth Floor  
New York, New York 10081  
Attention: Margaret Swales  
Telecopy: 212-552-5777  
Telephone: 212-552-7472

with a copy to:                               JPMorgan Chase Bank  
270 Park Avenue  
New York, New York 10017  
Attention: Peter Ling  
Telecopy: 212-270-3089  
Telephone: 212-270-4676

provided that any notice, request or demand to or upon the Administrative Agent  
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or the Lenders shall not be effective until received.

9.3. No Waiver; Cumulative Remedies. No failure to exercise and no

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delay in exercising, on the part of the Administrative Agent or any Lender, any right, remedy, power or privilege hereunder or under the other Loan Documents shall operate as a waiver thereof; nor shall any single or partial exercise of any right, remedy, power or privilege hereunder preclude any other or further exercise thereof or the exercise of any other right, remedy, power or privilege. The rights, remedies, powers and privileges herein provided are cumulative and not exclusive of any rights, remedies, powers and privileges provided by law.

9.4. Survival of Representations and Warranties. All representations

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and warranties made hereunder, in the other Loan Documents and in any document, certificate or statement delivered pursuant hereto or in connection herewith shall survive the execution and delivery of this Agreement and the making of the Loans and other extensions of credit hereunder.

9.5. Payment of Expenses and Taxes. The Borrower agrees (a) to pay or

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 reimburse the Administrative Agent for all its out-of-pocket costs and expenses incurred in connection with the development, preparation and execution of, and any amendment, supplement or modification to, this Agreement and the other Loan Documents and any other documents prepared in connection herewith or therewith, and the consummation and administration of the transactions contemplated hereby and thereby, including the reasonable fees and disbursements of counsel to the Administrative Agent and filing and recording fees and expenses, with statements with respect to the foregoing to be submitted to the Borrower prior to the Closing Date (in the case of amounts to be paid on the Closing Date) and from time to time thereafter on a quarterly basis or such other periodic basis as the Administrative Agent shall deem appropriate, (b) to pay or reimburse each Lender and the Administrative Agent for all its costs and expenses incurred in connection with the enforcement or preservation of any rights under this Agreement, the other Loan Documents and any such other documents, including the fees and disbursements of counsel (including the allocated fees and expenses of in-house counsel) to each Lender and of counsel to the Administrative Agent, (c) to pay, indemnify, and hold each Lender and the Administrative Agent harmless from, any and all recording and filing fees and any and all liabilities with respect to, or resulting from any delay in paying, stamp, excise and other taxes, if any, that may be payable or determined to be payable in connection with the execution and delivery of, or consummation or administration of any of the transactions contemplated by, or any amendment, supplement or modification of, or any waiver or consent under or in respect of, this Agreement, the other Loan Documents and any such other documents, and (d) to pay, indemnify, and hold each Lender and the Administrative Agent and their respective officers, directors, employees, affiliates, agents and controlling persons (each, an "Indemnitee") harmless from and against any and all other liabilities,

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 obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind or nature whatsoever with respect to the execution, delivery, enforcement, performance and administration of this Agreement, the other Loan Documents and any such other documents, including any of the foregoing relating to the use of proceeds of the Loans or the violation of, noncompliance with or liability under, any Environmental Law applicable to the operations of any Group Member or any of the Properties and the reasonable fees and expenses of legal counsel in connection with claims, actions or proceedings by any Indemnitee against any Loan Party under any Loan Document (all the foregoing in this clause (d), collectively, the "Indemnified

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 Liabilities"), provided, that the Borrower shall have no obligation hereunder to

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 any Indemnitee with respect to Indemnified Liabilities to the extent such Indemnified Liabilities are found by a final and nonappealable decision of a court of competent jurisdiction to have resulted from the gross negligence or willful misconduct of such Indemnitee. Without limiting the foregoing, and to the extent permitted by applicable law, the Borrower agrees not to assert and to cause its Subsidiaries not to assert, and hereby waives and agrees to cause its Subsidiaries to waive, all rights for contribution or any other rights of recovery with respect to all claims, demands, penalties, fines, liabilities, settlements, damages, costs and expenses of whatever kind or nature, under or related to Environmental Laws, that any of them might have by statute or otherwise against any Indemnitee. All amounts due under this Section 9.5 shall be payable not later than 10 days after written demand therefor. Statements payable by the Borrower pursuant to this Section 9.5 shall be submitted to the Chief Financial Officer of the Borrower (Telephone No. 785-575-1987) (Telecopy No. 785-575-1936), at the address of the Borrower set forth in Section 9.2, or to such other Person or address as may be hereafter designated by the Borrower in a written notice to the Administrative Agent. The agreements in this Section 9.5 shall survive repayment of the Loans and all other amounts payable hereunder.

9.6. Successors and Assigns; Participations and Assignments. (a) The

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 provisions of this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns permitted hereby, except that (i) the Borrower may not assign or otherwise transfer any of its rights or obligations hereunder without the prior written consent of each Lender (and any attempted assignment or transfer by the Borrower without such consent shall be null and void) and (ii) no

Lender may assign or otherwise transfer its rights or obligations hereunder except in accordance with this Section.

(b) (i) Subject to the conditions set forth in paragraph (b)(ii) below, any Lender may assign to one or more assignees (each, an "Assignee") all or a portion of its rights and obligations under this Agreement (including all or a portion of its Commitments and the Loans at the time owing to it) with the prior written consent (such consent not to be unreasonably withheld or delayed) of:

(A) the Borrower with respect to assignments of rights and obligations under the Revolving Facility, provided that no consent of the Borrower shall be required for an assignment to a Lender, an affiliate of a Lender, an Approved Fund (as defined below) or, if an Event of Default has occurred and is continuing, any other Person; and

(B) the Administrative Agent, provided that no consent of the Administrative Agent shall be required for an assignment to an Assignee that is a Lender, an Affiliate of a Lender or an Approved Fund immediately prior to giving effect to such assignment, except in the case of an assignment of a Revolving Commitment to an Assignee that does not already have a Revolving Commitment.

(ii) Assignments shall be subject to the following additional conditions:

(A) except in the case of an assignment to a Lender, an affiliate of a Lender or an Approved Fund or an assignment of the entire remaining amount of the assigning Lender's Commitments or Loans under any Facility, the amount of the Commitments or Loans of the assigning Lender subject to each such assignment (determined as of the date the Assignment and Assumption with respect to such assignment is delivered to the Administrative Agent) shall not be less than \$1,000,000 unless each of the Borrower and the Administrative Agent otherwise consent, provided that (1) no such consent

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of the Borrower shall be required if an Event of Default has occurred and is continuing and (2) such amounts shall be aggregated in respect of each Lender and its affiliates or Approved Funds, if any;

(B) the parties to each assignment shall execute and deliver to the Administrative Agent an Assignment and Assumption, together with a processing and recordation fee of \$3,500; provided that in the event of a

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concurrent assignment to two or more assignees that are Affiliates of one another, or two or more Approved Funds managed by the same investment advisor or affiliated investment advisors, only one such \$3,500 processing and recordation fee shall be payable;

(C) the Assignee, if it shall not be a Lender, shall deliver to the Administrative Agent an administrative questionnaire; and

(D) in the case of an assignment by a Lender to a CLO (as defined below) managed by such Lender or an Affiliate of such Lender, the assigning Lender shall retain the sole right to approve any amendment, modification or waiver of any provision of this Agreement and the other Loan Documents, provided that the Assignment and Assumption between such Lender and such

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CLO may provide that such Lender will not, without the consent of such CLO, agree to any amendment, modification or waiver that (1) requires the consent of each Lender directly affected thereby pursuant to the proviso to the second sentence of Section 9.1 and (2) directly affects such CLO.

For the purposes of this Section 9.6, the terms "Approved Fund" and "CLO" have the following meanings:

"Approved Fund" means (a) with respect to a Lender, a CLO managed by

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such Lender or by an Affiliate of such Lender and (b) with respect to any Lender that is a fund which invests in bank loans and similar extensions of credit, any other fund that invests in bank loans and similar extensions of credit and is managed by the same investment advisor as such Lender or by an affiliate of such investment advisor.

"CLO" means any entity (whether a corporation, partnership, trust or

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otherwise) that is engaged in making, purchasing, holding or otherwise investing in bank loans and similar extensions of credit in the ordinary course of its business and is administered or managed by a Lender or an affiliate of such Lender.

(iii) Subject to acceptance and recording thereof pursuant to paragraph (b)(iv) below, from and after the effective date specified in each Assignment and Assumption the Assignee thereunder shall be a party hereto and, to the extent of the interest assigned by such Assignment and Assumption, have the rights and obligations of a Lender under this Agreement, and the assigning Lender thereunder shall, to the extent of the interest assigned by such Assignment and Assumption, be released from its obligations under this Agreement (and, in the case of an Assignment and Assumption covering all of the assigning Lender's rights and obligations under this Agreement, such Lender shall cease to be a party hereto but shall continue to be entitled to the benefits of Sections 2.16, 2.17, 2.18 and 9.5). Any assignment or transfer by a Lender of rights or obligations under this Agreement that does not comply with this Section 9.6 shall be treated for purposes of this Agreement as a sale by such Lender of a participation in such rights and obligations in accordance with paragraph (c) of this Section.

(iv) The Administrative Agent, acting for this purpose as an agent of the Borrower, shall maintain at one of its offices a copy of each Assignment and Assumption delivered to it and a register for the recordation of the names and addresses of the Lenders, and the Commitments of, and principal amount of the Loans owing to, each Lender pursuant to the terms hereof from time to time (the "Register"). The entries in the Register shall be conclusive, and the Borrower,

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the Administrative Agent and the Lenders may treat each Person whose name is recorded in the Register pursuant to the terms hereof as a Lender hereunder for all purposes of this Agreement, notwithstanding notice to the contrary.

(v) Upon its receipt of a duly completed Assignment and Assumption executed by an assigning Lender and an Assignee, the Assignee's completed administrative questionnaire (unless the Assignee shall already be a Lender hereunder), the processing and recordation fee referred to in paragraph (b) of this Section and any written consent to such assignment required by paragraph (b) of this Section, the Administrative Agent shall accept such Assignment and Assumption and record the information contained therein in the Register. No assignment shall be effective for purposes of this Agreement unless it has been recorded in the Register as provided in this paragraph.

(c)(i) Any Lender may, without the consent of or notice to the Borrower or the Administrative Agent, sell participations to one or more banks or other entities (a "Participant") in all or a portion of such Lender's rights and

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obligations under this Agreement (including all or a portion of its Commitments and the Loans owing to it); provided that (A) such Lender's obligations under

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this Agreement shall remain unchanged, (B) such Lender shall remain solely responsible to the other parties hereto for the performance of such obligations and (C) the Borrower, the Administrative Agent and the Lenders shall continue to deal solely and directly with such Lender in connection with such Lender's rights and obligations under this Agreement. Any agreement pursuant to which a Lender sells such a participation shall provide that such Lender shall retain the sole right to enforce this Agreement and to

approve any amendment, modification or waiver of any provision of this Agreement; provided that such agreement may provide that such Lender will not, without the consent of the Participant, agree to any amendment, modification or waiver that (1) requires the consent of each Lender directly affected thereby pursuant to the proviso to the second sentence of Section 9.1 and (2) directly affects such Participant. Subject to paragraph (c)(ii) of this Section, the Borrower agrees that each Participant shall be entitled to the benefits of Sections 2.16, 2.17 and 2.18 to the same extent as if it were a Lender and had acquired its interest by assignment pursuant to paragraph (b) of this Section. To the extent permitted by law, each Participant also shall be entitled to the benefits of Section 9.7(b) as though it were a Lender, provided such Participant shall be subject to Section 9.7(a) as though it were a Lender.

(ii) A Participant shall not be entitled to receive any greater payment under Section 2.16 or 2.17 than the applicable Lender would have been entitled to receive with respect to the participation sold to such Participant, unless the sale of the participation to such Participant is made with the Borrower's prior written consent. Any Participant that is a Non-U.S. Lender shall not be entitled to the benefits of Section 2.17 unless such Participant complies with Section 2.17(d).

(d) Any Lender may at any time pledge or assign a security interest in all or any portion of its rights under this Agreement to secure obligations of such Lender, including any pledge or assignment to secure obligations to a Federal Reserve Bank, and this Section shall not apply to any such pledge or assignment of a security interest; provided that no such pledge or assignment of a security interest shall release a Lender from any of its obligations hereunder or substitute any such pledgee or Assignee for such Lender as a party hereto.

(e) The Borrower, upon receipt of written notice from the relevant Lender, agrees to issue Notes to any Lender requiring Notes to facilitate transactions of the type described in paragraph (d) above.

(f) Notwithstanding the foregoing, any Conduit Lender may assign any or all of the Loans it may have funded hereunder to its designating Lender without the consent of the Borrower or the Administrative Agent and without regard to the limitations set forth in Section 9.6(b). Each of the Borrower, each Lender and the Administrative Agent hereby confirms that it will not institute against a Conduit Lender or join any other Person in instituting against a Conduit Lender any bankruptcy, reorganization, arrangement, insolvency or liquidation proceeding under any state bankruptcy or similar law, for one year and one day after the payment in full of the latest maturing commercial paper note issued by such Conduit Lender; provided, however, that each Lender designating any Conduit Lender hereby agrees to indemnify, save and hold harmless each other party hereto for any loss, cost, damage or expense arising out of its inability to institute such a proceeding against such Conduit Lender during such period of forbearance.

9.7. Adjustments; Set-off. (a) Except to the extent that this Agreement expressly provides for payments to be allocated to a particular Lender or to the Lenders under a particular Facility, if any Lender (a "Benefitted Lender") shall, at any time after the Loans and other amounts payable hereunder shall immediately become due and payable pursuant to Section 7, receive any payment of all or part of the Obligations owing to it, or receive any collateral in respect thereof (whether voluntarily or involuntarily, by set-off, pursuant to events or proceedings of the nature referred to in Section 7(f), or otherwise), in a greater proportion than any such payment to or collateral received by any other Lender, if any, in respect of the Obligations owing to such other Lender, such Benefitted Lender shall purchase for cash from the other Lenders a participating interest in such portion of the Obligations owing to each such other Lender, or shall provide such other Lenders with the benefits of any such collateral, as shall be necessary to cause such Benefitted Lender to share the excess payment or benefits of such collateral ratably with each of the Lenders; provided, however, that if all or any portion of such excess payment or

benefits is thereafter recovered from such Benefitted Lender, such purchase shall be rescinded, and the purchase price and benefits returned, to the extent of such recovery, but without interest.

(b) In addition to any rights and remedies of the Lenders provided by law, each Lender shall have the right, without prior notice to the Borrower, any such notice being expressly waived by the Borrower to the extent permitted by applicable law, upon any amount becoming due and payable by the Borrower hereunder (whether at the stated maturity, by acceleration or otherwise), to set off and appropriate and apply against such amount any and all deposits (general or special, time or demand, provisional or final), in any currency, and any other credits, indebtedness or claims, in any currency, in each case whether direct or indirect, absolute or contingent, matured or unmatured, at any time held or owing by such Lender or any branch or agency thereof to or for the credit or the account of the Borrower, as the case may be. Each Lender agrees promptly to notify the Borrower and the Administrative Agent after any such setoff and application made by such Lender, provided that the failure to give

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such notice shall not affect the validity of such setoff and application.

9.8. Counterparts. This Agreement may be executed by one or more of the  
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parties to this Agreement on any number of separate counterparts, and all of said counterparts taken together shall be deemed to constitute one and the same instrument. Delivery of an executed signature page of this Agreement by facsimile transmission shall be effective as delivery of a manually executed counterpart hereof. A set of the copies of this Agreement signed by all the parties shall be lodged with the Borrower and the Administrative Agent.

9.9. Severability. Any provision of this Agreement that is prohibited  
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or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

9.10. Integration. This Agreement and the other Loan Documents  
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represent the entire agreement of the Borrower, the Administrative Agent and the Lenders with respect to the subject matter hereof and thereof, and there are no promises, undertakings, representations or warranties by the Administrative Agent or any Lender relative to the subject matter hereof not expressly set forth or referred to herein or in the other Loan Documents.

9.11. GOVERNING LAW. THIS AGREEMENT AND THE RIGHTS AND OBLIGATIONS OF  
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THE PARTIES UNDER THIS AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED AND INTERPRETED IN ACCORDANCE WITH, THE LAW OF THE STATE OF NEW YORK.

9.12. Submission To Jurisdiction; Waivers. The Borrower hereby  
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irrevocably and unconditionally:

(a) submits for itself and its property in any legal action or proceeding relating to this Agreement and the other Loan Documents to which it is a party, or for recognition and enforcement of any judgment in respect thereof, to the non-exclusive general jurisdiction of the courts of the State of New York, the courts of the United States for the Southern District of New York, and appellate courts from any thereof;

(b) consents that any such action or proceeding may be brought in such courts and waives any objection that it may now or hereafter have to the venue of any such action or

proceeding in any such court or that such action or proceeding was brought in an inconvenient court and agrees not to plead or claim the same;

(c) agrees that service of process in any such action or proceeding may be effected by mailing a copy thereof by registered or certified mail (or any substantially similar form of mail), postage prepaid, to the Borrower at its address set forth in Section 9.2 or at such other address of which the Administrative Agent shall have been notified pursuant thereto;

(d) agrees that nothing herein shall affect the right to effect service of process in any other manner permitted by law or shall limit the right to sue in any other jurisdiction; and

(e) waives, to the maximum extent not prohibited by law, any right it may have to claim or recover in any legal action or proceeding referred to in this Section any special, exemplary, punitive or consequential damages.

9.13. Acknowledgements. The Borrower hereby acknowledges that:

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(a) it has been advised by counsel in the negotiation, execution and delivery of this Agreement and the other Loan Documents;

(b) neither the Administrative Agent nor any Lender has any fiduciary relationship with or duty to the Borrower arising out of or in connection with this Agreement or any of the other Loan Documents, and the relationship between Administrative Agent and Lenders, on one hand, and the Borrower, on the other hand, in connection herewith or therewith is solely that of debtor and creditor; and

(c) no joint venture is created hereby or by the other Loan Documents or otherwise exists by virtue of the transactions contemplated hereby among the Lenders or among the Borrower and the Lenders.

9.14. Confidentiality. Each of the Administrative Agent and each Lender

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agrees to keep confidential all non-public information provided to it by any Loan Party pursuant to this Agreement that is designated by such Loan Party as confidential; provided that nothing herein shall prevent the Administrative Agent or any Lender from disclosing any such information (a) to the Administrative Agent, any other Lender or any affiliate thereof or any Approved Fund, (b) subject to an agreement to comply with the provisions of this Section, to any actual or prospective Transferee or any direct or indirect counterparty to any Swap Agreement (or any professional advisor to such counterparty), (c) to its employees, directors, agents, attorneys, accountants and other professional advisors or those of any of its affiliates or any Approved Fund, (d) upon the request or demand of any Governmental Authority, (e) in response to any order of any court or other Governmental Authority or as may otherwise be required pursuant to any Requirement of Law, (f) if requested or required to do so in connection with any litigation or similar proceeding, (g) that has been publicly disclosed, (h) to the National Association of Insurance Commissioners or any similar organization or any nationally recognized rating agency that requires access to information about a Lender's investment portfolio in connection with ratings issued with respect to such Lender, or (i) in connection with the exercise of any remedy hereunder or under any other Loan Document.

9.15. WAIVERS OF JURY TRIAL. THE BORROWER, THE ADMINISTRATIVE AGENT AND

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THE LENDERS HEREBY IRREVOCABLY AND UNCONDITIONALLY WAIVE TRIAL BY JURY IN ANY LEGAL ACTION OR PROCEEDING

RELATING TO THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT AND FOR ANY COUNTERCLAIM THEREIN.

9.16. Delivery of Addenda. Each initial Lender (other than JPMorgan

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Chase Bank, Citibank, N.A. and Bank of America, N.A.) shall become a party to this Agreement by delivering to the Administrative Agent an Addendum duly executed by such Lender.



IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed and delivered by their proper and duly authorized officers as of the day and year first above written.

WESTERN RESOURCES, INC.

By: /s/ Paul R. Geist

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Name: Paul R. Geist  
Title: Senior Vice President and  
Chief Financial Officer

JPMORGAN CHASE BANK, as Administrative Agent  
and as a Lender

By: /s/ Robert Anastasio

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Name: Robert Anastasio  
Title: Vice President

CITIBANK, N.A., as Syndication Agent  
and as a Lender

By: /s/ Robert J. Harrity Jr.

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Name: Robert J. Harrity Jr.  
Title: Managing Director

BANK OF AMERICA, N.A., as Documentation Agent  
and as a Lender

By: /s/ John K. Barrett

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Name: John K. Barrett  
Title: Principal

CERTIFICATION PURSUANT TO  
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18 U.S.C. SECTION 1350,  
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AS ADOPTED PURSUANT TO SECTION 906  
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OF THE SARBANES-OXLEY ACT OF 2002  
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In connection with the Quarterly Report of Westar Energy, Inc. (the Company) on Form 10-Q for the quarterly period ended June 30, 2002 (the Report) which this certification accompanies, David C. Wittig, in my capacity as Chairman of the Board, President and Chief Executive Officer of the Company, and Paul R. Geist, in my capacity as Senior Vice President, Chief Financial Officer and Treasurer of the Company, certify that the Report fully complies with the requirements of section 13(a) or Section 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)) and that information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 14, 2002  
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By: /s/ David C. Wittig  
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David C. Wittig,  
Chairman of the Board, President and  
Chief Executive Officer

Date: August 14, 2002  
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By: /s/ Paul R. Geist  
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Paul R. Geist,  
Senior Vice President,  
Chief Financial Officer and Treasurer

The forgoing certification is being furnished solely pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not be deemed filed by the Company as part of the Report or as a separate disclosure document for purposes of Section 18 or any other provision of the Securities Exchange Act of 1934, as amended.