

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

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

For the quarterly period ended June 30, 2001

OR

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

For the transition period from ____ to ____

Commission file number 1-707

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

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

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

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

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

Yes (X) No ()

The number of shares outstanding of the registrant's Common stock at August 8, 2001, was 61,856,069 shares.

PART I - FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

KANSAS CITY POWER & LIGHT COMPANY
Consolidated Balance Sheets

	(Unaudited)	
	June 30	December 31
	2001	2000
	(thousands)	
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 17,797	\$ 34,877
Receivables	180,522	115,356
Equity securities	5,496	18,597
Fuel inventories, at average cost	23,909	20,802
Materials and supplies, at average cost	47,728	46,402
Deferred income taxes	2,948	737
Other	27,462	14,455
Total	305,862	251,226
Nonutility Property and Investments		
Telecommunications property	384,760	-
Affordable housing limited partnerships	95,993	98,129
Gas property and investments	28,997	47,654
Nuclear decommissioning trust fund	59,629	56,800
Other	66,381	81,624
Total	635,760	284,207
Utility Plant, at Original Cost		
Electric	4,172,699	3,832,655
Less-accumulated depreciation	1,730,171	1,645,450

Net utility plant in service	2,442,528	2,187,205
Construction work in progress	85,814	309,629
Nuclear fuel, net of amortization of \$118,441 and \$110,014	26,217	30,956
Total	2,554,559	2,527,790
Deferred Charges		
Regulatory assets	135,448	139,456
Prepaid pension costs	78,042	68,342
Goodwill	104,548	11,470
Other deferred charges	16,960	11,400
Total	334,998	230,668
Total	\$ 3,831,179	\$ 3,293,891

LIABILITIES AND CAPITALIZATION

Current Liabilities

Notes payable	\$ 22,306	\$ -
Commercial paper	245,802	55,600
Current maturities of long-term debt	268,342	93,645
Accounts payable	154,642	158,242
Accrued taxes	20,408	14,402
Accrued interest	13,067	12,553
Accrued payroll and vacations	26,082	28,257
Accrued refueling outage costs	7,560	1,890
Other	62,612	14,877
Total	820,821	379,466

Deferred Credits and Other Liabilities

Deferred income taxes	601,748	590,220
Deferred investment tax credits	47,892	50,037
Deferred telecommunications revenue	47,257	-
Other	115,601	121,907
Total	812,498	762,164

Capitalization (see statements)	2,197,860	2,152,261
Commitments and Contingencies (Note 4)		
Total	\$ 3,831,179	\$ 3,293,891

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

KANSAS CITY POWER & LIGHT COMPANY
Consolidated Statements of Capitalization

	(Unaudited)	
	June 30	December 31
	2001	2000
	(thousands)	
Long-term Debt (excluding current maturities)		
General Mortgage Bonds		
Medium-Term Notes due 2003-08, 7.28% and 7.18%, weighted-average rate	\$ 179,000	\$ 206,000
3.94%* Environmental Improvement Revenue Refunding Bonds due 2012-23	158,768	158,768
Senior Notes		
7.125% due 2005	250,000	250,000
Unamortized discount	(495)	(550)
Medium-Term Notes		
6.69%** due 2002	-	200,000
Environmental Improvement Revenue Refunding Bonds		
3.93%* Series A & B due 2015	106,500	106,500
4.50% Series C due 2017	50,000	50,000
4.35% Series D due 2017	40,000	40,000
Subsidiary Obligations		
Senior Discount Notes		
12.5% due 2008	202,693	-
Unamortized discount	(2,088)	-
R.S. Andrews Enterprises, Inc. long-term debt		
8.25% weighted-average rate due 2003-07	2,675	-
Affordable Housing Notes		
8.15% and 8.29%, weighted-average rate due 2003-08	20,333	31,129
KLT Inc. Bank Credit Agreement		
4.47% due 2003	94,000	-
Total	1,101,386	1,041,847
Company-obligated Mandatorily Redeemable		
Preferred Securities of a trust holding solely KCPL Subordinated Debentures	150,000	150,000
Cumulative Preferred Stock		
\$100 Par Value		
3.80% - 100,000 shares issued	10,000	10,000
4.50% - 100,000 shares issued	10,000	10,000
4.20% - 70,000 shares issued	7,000	7,000
4.35% - 120,000 shares issued	12,000	12,000
\$100 Par Value - Redeemable		
4.00%	-	62
Total	39,000	39,062
Common Stock Equity		
Common stock-150,000,000 shares authorized without par value 61,908,729 shares issued, stated value	449,697	449,697
Retained earnings (see statements)	470,289	473,321
Accumulated other comprehensive income		
Loss on derivative hedging instruments	(10,858)	-
Capital stock premium and expense	(1,654)	(1,666)
Total	907,474	921,352
Total	\$ 2,197,860	\$ 2,152,261

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

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

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

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

Three Months Ended June 30	2001	2000
	(thousands)	
Operating Revenues		
Electric sales revenues	\$325,594	\$276,121
Gas sales revenues	5,131	13,824
Telecommunications revenues	4,725	-
Other revenues	18,882	981
Total	354,332	290,926
Operating Expenses		
Fuel	39,589	35,332
Purchased power	86,281	56,837
Gas purchased and production expenses	4,960	7,316
Other	85,059	58,838
Maintenance	20,444	18,456
Depreciation and depletion	39,991	33,489
Gain on property	(20,398)	(4,715)
General taxes	22,562	22,078
Total	278,488	227,631
Operating income	75,844	63,295
Income (Loss) from equity investments	424	(10,482)
Other income and expenses	649	(1,672)
Interest charges	25,615	19,016
Income before income taxes	51,302	32,125
Income taxes	15,070	5,385
Net income	36,232	26,740
Preferred stock dividend requirements	412	412
Earnings available for common stock	\$ 35,820	\$ 26,328
Average number of common shares outstanding	61,855	61,864
Basic and diluted earnings per common share	\$ 0.58	\$ 0.43
 Cash dividends per common share	 \$ 0.415	 \$ 0.415

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

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

Year to Date June 30	2001	2000
	(thousands)	
Operating Revenues		
Electric sales revenues	\$576,398	\$ 466,454
Gas sales revenues	17,106	21,862
Telecommunications revenues	6,992	-
Other revenues	35,693	1,943
Total	636,189	490,259
Operating Expenses		
Fuel	72,303	65,185
Purchased power	156,647	71,635
Gas purchased and production expenses	17,115	10,562
Other	164,859	114,358
Maintenance	41,753	38,517
Depreciation and depletion	76,622	65,083
Gain on property	(21,706)	(3,690)
General taxes	45,414	43,295
Total	553,007	404,945
Operating income	83,182	85,314
Loss from equity investments	(112)	(16,240)
Other income and expenses	(531)	(9,515)
Interest charges	49,836	36,368
Income before income taxes, extraordinary item and cumulative effect of changes in accounting principles	32,703	23,191
Income taxes	(557)	(4,124)
Income before extraordinary item and cumulative effect of changes in accounting principles	33,260	27,315
Early extinguishment of debt, net of income taxes	15,872	-
Cumulative effect to January 1, 2000, of changes in accounting principles, net of income taxes	-	30,073
Net income	49,132	57,388
Preferred stock dividend requirements	824	824
Earnings available for common stock	\$ 48,308	\$ 56,564
Average number of common shares outstanding	61,855	61,881
Basic and diluted earnings per common share before extraordinary item and cumulative effect of changes in accounting principles	\$ 0.52	\$ 0.42
Early extinguishment of debt	0.26	-
Cumulative effect to January 1, 2000, of changes in accounting principles	-	0.49
Basic and diluted earnings per common share	\$ 0.78	\$ 0.91
Cash dividends per common share	\$ 0.83	\$ 0.83

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

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

Year to Date June 30	2001	2000
	(thousands)	
Cash Flows from Operating Activities		
Net income	\$ 49,132	\$ 57,388
Adjustments to reconcile income to net cash from operating activities:		
Early extinguishment of debt, net of income taxes	(15,872)	-
Cumulative effect of changes in accounting principles, net of income taxes	-	(30,073)
Depreciation and depletion	76,622	65,083
Amortization of:		
Nuclear fuel	8,428	8,640
Other	8,561	5,731
Deferred income taxes (net)	346	(3,467)
Investment tax credit amortization	(2,145)	(2,235)
Accretion of Senior Discount Notes	9,719	-
Loss from equity investments	112	16,240
Gain on sale of KLT Gas properties	(19,551)	-
Asset impairments	-	1,994
Allowance for equity funds used during construction	(3,646)	(1,950)
Other operating activities (Note 1)	(102,942)	26,634
Net cash from operating activities	8,764	143,985
Cash Flows from Investing Activities		
Utility capital expenditures	(120,010)	(230,236)
Allowance for borrowed funds used during construction	(7,698)	(5,120)
Purchases of investments	(40,653)	(40,850)
Purchases of nonutility property	(35,806)	(13,485)
Sale of KLT Gas properties	41,707	-
Sale of securities	20,778	-
Hawthorn No. 5 partial insurance recovery	30,000	50,000
Loan to DTI prior to majority ownership	(94,000)	-
Other investing activities	4,607	13,113
Net cash from investing activities	(201,075)	(226,578)
Cash Flows from Financing Activities		
Issuance of long-term debt	94,000	272,000
Repayment of long-term debt	(63,320)	(57,000)
Net change in short-term borrowings	197,151	(79,339)
Dividends paid	(52,164)	(52,177)
Other financing activities	(436)	(2,768)
Net cash from financing activities	175,231	80,716
Net Change in Cash and Cash Equivalents	(17,080)	(1,877)
Cash and Cash Equivalents at Beginning of Year	34,877	13,073
Cash and Cash Equivalents at End of Period	\$ 17,797	\$ 11,196

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

KANSAS CITY POWER & LIGHT COMPANY

Consolidated Statements of Comprehensive Income
(Unaudited)

	Three Months Ended		Year to Date	
	June 30		June 30	
	2001	2000	2001	2000
	(thousands)			
Net income	\$ 36,232	\$ 26,740	\$ 49,132	\$ 57,388
Other comprehensive income (loss):				
Loss on derivative hedging instruments	(31,578)	-	(34,168)	-
Income tax benefit	13,127	-	14,207	-
Net loss on derivative hedging instruments	(18,451)	-	(19,961)	-
Reclassification adjustment, net of tax	(4,333)	-	(8,340)	2,337
Comprehensive income before cumulative effect of a change in accounting principles, net of income taxes	13,448	26,740	20,831	59,725
Cumulative effect to January 1, 2001, of a change in accounting principles, net of income taxes	-	-	17,443	-
Comprehensive Income	\$ 13,448	\$ 26,740	\$ 38,274	\$ 59,725

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

Consolidated Statements of Retained Earnings
(Unaudited)

	Three Months Ended		Year to Date	
	June 30		June 30	
	2001	2000	2001	2000
	(thousands)			
Beginning balance	\$ 460,139	\$ 423,500	\$ 473,321	\$ 418,952
Net income	36,232	26,740	49,132	57,388
	496,371	450,240	522,453	476,340
Dividends declared				
Preferred stock - at required rates	412	411	824	824
Common stock	25,670	25,666	51,340	51,353
Ending balance	\$ 470,289	\$ 424,163	\$ 470,289	\$ 424,163

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

CERTAIN FORWARD-LOOKING INFORMATION

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

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

This list of factors may not be all-inclusive since it is not possible to predict all possible factors.

THE COMPANY

The consolidated company (referred to throughout as consolidated or the Company) consists of Kansas City Power & Light Company (KCPL), KLT Inc., Great Plains Power Incorporated (GPP), and Home Service Solutions Inc. (HSS). KLT Inc.'s major holdings consist of DTI Holdings, Inc. (DTI), Strategic Energy LLC (SEL), KLT Gas, and investments in affordable housing limited partnerships. HSS has two subsidiaries: Worry Free Service, Inc. and R.S. Andrews Enterprises, Inc. (RSAE).

Notes to Consolidated Financial Statements

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

1. SUPPLEMENTAL CASH FLOW INFORMATION (a)

	Year to Date June 30	
	2001	2000
	(thousands)	
Cash flows affected by changes in:		
Receivables	\$ (60,076)	\$ (23,532)
Fuel inventories	(3,107)	(910)
Materials and supplies	(1,326)	(519)
Accounts payable	(41,118)	45,683
Accrued taxes	3,568	17,961
Accrued interest	472	(4,111)
Wolf Creek refueling outage accrual	5,670	5,292
Pension and postretirement benefit obligations	(14,051)	(7,496)
Other	7,026	(5,734)
Total other operating activities	\$ (102,942)	\$ 26,634
Cash paid during the period for:		
Interest	\$ 41,178	\$ 39,503
Income taxes	\$ 8,624	\$ 109

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

	DTI	RSAE	Total
	(thousands)		
Cash paid to obtain majority ownership	\$ (39,855)	\$ (560)	\$ (40,415)
Subsidiary cash	4,557	1,053	5,610
Purchases of subsidiaries, net of cash received	\$ (35,298)	\$ 493	\$ (34,805)
Purchase of other investments			(5,848)
Total purchases of investments			\$ (40,653)

	DTI at February 8 2001	RSAE at January 1 2001
	(thousands)	
Initial consolidation of subsidiaries:		
Assets		
Cash	\$ 4,557	\$ 1,053
Receivables	1,012	4,078
Other nonutility property and investments	363,825	6,267
Goodwill	67,774	24,496
Other assets	5,143	3,919
Eliminate equity investment	(64,870)	(7,200)
Total assets	\$ 377,441	\$ 32,613
Liabilities		
Notes payable	\$ 5,300	\$ 10,057
Accounts payable	31,299	6,219
Accrued taxes	2,414	24
Deferred income taxes	7,437	-
Deferred telecommunications revenue	41,522	-
Other liabilities and deferred credits	5,009	13,418
Loan from KLT Telecom (c)	94,000	-
Long-term debt	190,460	2,895
Total liabilities	\$ 377,441	\$ 32,613

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

2. CAPITALIZATION

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

KCPL is authorized to issue an additional \$150 million of debt securities under its shelf registration statement dated November 21, 2000.

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

3. SEGMENT AND RELATED INFORMATION

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

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

	Three Months Ended		Year to Date	
	June 30		June 30	
	2001	2000	2001	2000
KCPL	(millions)			
Operating revenues	\$ 237.6	\$ 228.1	\$ 436.4	\$ 418.4
Fuel expense	(39.6)	(35.4)	(72.3)	(65.2)
Purchased power expense	(13.8)	(20.8)	(38.0)	(35.6)
Other (a)	(94.0)	(89.0)	(187.0)	(180.9)
Depreciation and depletion	(33.8)	(30.9)	(66.5)	(60.2)
Gain (loss) on property	(0.1)	2.8	(0.1)	2.8
Other income and expenses	(0.4)	(0.7)	(3.6)	(4.6)
Interest charges	(18.3)	(15.3)	(37.7)	(29.2)
Income taxes	(14.4)	(14.6)	(10.1)	(17.8)
Cumulative effect of changes in pension accounting	-	-	-	30.1
Net income	\$ 23.2	\$ 24.2	\$ 21.1	\$ 57.8
KLT Inc.				
Operating revenues	\$ 98.0	\$ 62.0	\$ 164.4	\$ 70.0
Purchased power expense	(72.4)	(36.0)	(118.6)	(36.0)
Other (a)	(20.5)	(16.7)	(42.8)	(23.3)
Depreciation and depletion	(5.5)	(2.2)	(8.8)	(4.0)
Gain on property	21.8	1.9	23.1	0.9
Income (loss) from equity investments	0.4	(8.9)	-	(13.5)
Other income and expenses	0.3	(1.2)	(0.1)	(5.6)
Interest charges	(7.0)	(3.8)	(11.4)	(7.2)
Income taxes	(0.6)	8.6	9.7	20.5
Early extinguishment of debt	-	-	15.9	-
Net income	\$ 14.5	\$ 3.7	\$ 31.4	\$ 1.8

	Three Months Ended		Year to Date	
	June 30		June 30	
	2001	2000	2001	2000
HSS				
			(millions)	
Operating revenues	\$ 18.7	\$ 0.9	\$ 35.4	\$ 1.9
Other (a)	(18.6)	(1.0)	(39.4)	(2.6)
Depreciation and depletion	(0.7)	(0.4)	(1.3)	(0.9)
Loss on property	(1.3)	-	(1.3)	-
Loss from equity investments	-	(1.5)	(0.1)	(2.7)
Other income and expenses	0.8	0.2	3.1	0.7
Interest charges	(0.3)	-	(0.7)	-
Income taxes	(0.1)	0.7	0.9	1.4
Net loss	\$ (1.5)	\$ (1.1)	\$ (3.4)	\$ (2.2)
Consolidated				
Operating revenues	\$ 354.3	\$ 291.0	\$ 636.2	\$ 490.3
Fuel expense	(39.6)	(35.4)	(72.3)	(65.2)
Purchased power expense	(86.2)	(56.8)	(156.6)	(71.6)
Other (a)	(133.1)	(106.7)	(269.2)	(206.8)
Depreciation and depletion	(40.0)	(33.5)	(76.6)	(65.1)
Gain on property	20.4	4.7	21.7	3.7
Income (loss) from equity investments	0.4	(10.4)	(0.1)	(16.2)
Other income and expenses	0.7	(1.7)	(0.6)	(9.5)
Interest charges	(25.6)	(19.1)	(49.8)	(36.4)
Income taxes	(15.1)	(5.3)	0.5	4.1
Early extinguishment of debt and cumulative effect of changes in pension accounting	-	-	15.9	30.1
Net income	\$ 36.2	\$ 26.8	\$ 49.1	\$ 57.4

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

June 30	KCPL	KLT Inc.	HSS	Consolidated
2001				
			(millions)	
Assets	\$ 3,039.6	\$ 735.5(b)	\$ 56.1	\$ 3,831.2
Net equity method investments	-	-	-	-
Year to date capital and investments expenditures	122.4	74.4	(0.3)	196.5
2000				
Assets	\$ 2,859.8	\$ 314.3	\$ 45.7	\$ 3,219.8
Net equity method investments	-	22.7	22.9	45.6
Year to date capital and investments expenditures	233.2	51.3	0.1	284.6

(b) Includes assets associated with DTI of \$464 million and SEL of \$97 million.

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

	Three Months Ended		Year to Date	
	June 30		June 30	
	2001	2000	2001	2000
DTI (a)				
			(millions)	
Operating revenues	\$ 4.7	-	\$ 7.0	-
Other	(6.8)	-	(10.6)	-
Depreciation and depletion	(5.0)	-	(7.6)	-
Loss from equity investments	-	\$ (7.6)	-	\$ (14.2)
Other income and expenses	0.2	-	1.0	-
Interest charges	(4.7)	-	(7.0)	-
Income taxes	4.0	2.7	6.2	5.1
Early extinguishment of debt	-	-	15.9	-
Net income (loss)	\$ (7.6)	\$ (4.9)	\$ 4.9	\$ (9.1)
SEL (a)				
Operating revenues	\$ 92.9	\$ 51.5	\$ 155.5	\$ 51.5
Purchased power expense	(72.4)	(36.0)	(118.6)	(36.0)
Other	(8.8)	(9.2)	(23.1)	(9.3)
Depreciation and depletion	(0.1)	(0.2)	(0.1)	(0.2)
Income (loss) from equity investments	-	(0.7)	-	0.1
Other income and expenses	(0.9)	(2.1)	(1.2)	(2.1)
Interest charges	-	(0.1)	(0.1)	(0.1)
Income taxes	(4.4)	(1.2)	(5.1)	(1.5)
Net income	\$ 6.3	\$ 2.0	\$ 7.3	\$ 2.4
Gas				
Operating revenues	\$ 0.4	\$ 10.5	\$ 1.9	\$ 18.5
Other	(3.3)	(5.8)	(6.0)	(11.0)
Depreciation and depletion	(0.4)	(2.0)	(1.0)	(3.8)
Gain (loss) on property	19.6	-	20.9	(1.4)
Income from equity investments	0.9	-	1.0	1.4
Other income and expenses	(0.1)	-	-	-
Interest charges	-	(1.1)	-	(2.1)
Income taxes	(5.3)	1.3	(3.5)	3.4
Net income	\$ 11.8	\$ 2.9	\$ 13.3	\$ 5.0
Other				
Other	\$ (1.6)	\$ (1.7)	\$ (3.1)	\$ (3.0)
Depreciation and depletion	-	-	(0.1)	-
Gain on property	2.2	1.9	2.2	2.3
Loss from equity investments	(0.5)	(0.6)	(1.0)	(0.8)
Other income and expenses	1.1	0.9	0.1	(3.5)
Interest charges	(2.3)	(2.6)	(4.3)	(5.0)
Income taxes	5.1	5.8	12.1	13.5
Net income	\$ 4.0	\$ 3.7	\$ 5.9	\$ 3.5

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

4. COMMITMENTS AND CONTINGENCIES

Environmental Matters

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

Mercury Emissions

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

Air Particulate Matter

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

Nitrogen Oxide

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

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

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

Hawthorn No. 5 complies with the proposed requirements discussed above. KCPL continues to refine these preliminary estimates and explore alternatives. The ultimate cost of these regulations, if any, could be significantly different from the amounts estimated above.

Low-Level Waste

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

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

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

Coal Contracts

KCPL's remaining share of coal purchase commitments under existing contracts total \$86.7 million. Obligations for the remainder of 2001 through 2003, based on estimated prices for those years, total \$22.2 million, \$46.6 million, and \$17.9 million, respectively. These amounts are net of purchases made year to date 2001.

5. RECEIVABLES

	June 30 2001	December 31 2000
	(thousands)	
KCPL Receivable Corporation	\$ 52,076	\$ 48,208
Other Receivables	128,446	67,148
Receivables	\$ 180,522	\$ 115,356

Accounts receivable sold under the revolving agreement between KCPL Receivable Corporation and KCPL totaled \$112.1 million at June 30, 2001, and \$108.2 million at December 31, 2000. In consideration of the sale, KCPL received \$60 million in cash and the remaining balance in the form of a subordinated note from KCPL Receivable Corporation.

Other receivables consist primarily of receivables from partners in jointly-owned electric utility plants, bulk power sales receivables and accounts receivable held by subsidiaries, including receivables from the increase to a majority ownership of DTI and RSE (see Note 1 Supplemental Cash Flow Information).

6. DERIVATIVE FINANCIAL INSTRUMENTS

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

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

Derivative Instruments and Hedging Activities

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

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

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

Interest Rate Risk Management

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

In 2000, KCPL issued \$200 million of unsecured, floating rate medium-term notes. Simultaneously, KCPL entered into interest rate cap agreements to hedge the interest rate risk on the notes. The cap agreements are designated as cash flow hedges. The difference between the fair market value of the cap agreements recorded on the balance sheet at initial adoption and the unamortized premium was reported in interest expense.

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

Commodity Risk Management

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

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

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

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

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

KCPL has eight capacity contracts, which it does not consider to be derivatives. During the second quarter of 2001, FASB cleared an interpretation from the FASB Derivatives Implementation Group. The new implementation guidelines will be applied in the third quarter of 2001. KCPL is still evaluating its capacity contracts under the new guidelines, but does not expect the contracts to be considered derivatives under the new guidelines.

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

Activity for three months ended June 30, 2001

Balance Sheet Classification	March 31 2001	Increase (Decrease) in Comprehensive		June 30 2001
		Income	Reclassified	
(millions)				
Assets				
Other current assets	\$ 30.1	\$(13.8)	\$(10.3)	\$ 6.0
Liabilities				
Other current liabilities	(4.4)	(24.7)	1.1	(28.0)
Other comprehensive income	(11.9)	18.4	4.3	10.8
Deferred income taxes	(8.7)	13.1	3.1	7.5
Other deferred credits	(5.1)	7.0	1.8	3.7

Activity for year to date June 30, 2001

Balance Sheet classification	Cumulative Effect to January 1, 2001	Increase (Decrease) in Comprehensive		June 30 2001
		Income	Reclassified	
(millions)				
Assets				
Other current assets	\$ 44.5	\$(17.3)	\$(21.2)	\$ 6.0
Liabilities				
Other current liabilities	(6.8)	(24.4)	3.2	(28.0)
Other comprehensive income	(17.4)	19.9	8.3	10.8
Deferred income taxes	(12.7)	14.2	6.0	7.5
Other deferred credits	(7.6)	7.6	3.7	3.7

7. HSS PURCHASE OF AN ADDITIONAL OWNERSHIP INTEREST IN RSAE

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

This acquisition has been accounted for by the purchase method of accounting and the operating results of RSAE have been included in the Company's consolidated financial statements from January 1, 2001, with the appropriate adjustments to minority interest from January 1, 2001, through the date of the acquisition. RSAE's June 30, 2001, assets included \$23.3 million of goodwill, which is being amortized over 40 years. On a pro forma basis, as if the business had been acquired at the beginning of fiscal 2000, revenue, net income and earnings per share would not differ materially from the amounts reported in the Company's year ended December 31, 2000, consolidated financial statements.

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

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

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

This acquisition has been accounted for by the purchase method of accounting. Operating results were included in the Company's consolidated financial statements from the date of the acquisition. Goodwill of \$67.8 million was recorded as a result of this acquisition and is being amortized over 25 years. At June 30, 2001, unamortized goodwill totaled \$66.6 million.

Extraordinary Item Early Extinguishment of Debt

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

Telecommunications Property

Telecommunications property at June 30, 2001, of \$384.8 million, is net of accumulated depreciation of \$39.8 million and consists mainly of fiber optic plant and usage rights. At June 30, 2001, telecommunications property includes \$63 million of construction in progress.

Operating Leases and Indefeasible Rights to Use (IRU) Commitments

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

DTI Risk Factors

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

Pro forma Information

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

	Three Months Ended June 30, 2000 (thousands)	
Revenues	\$293,400	
Net income	\$ 26,740	EPS
Eliminate DTI recorded operating loss	4,719	
Add DTI operating loss on a 100% basis	(9,236)	
Other adjustments	(753)	
Pro forma net income	\$ 21,470	\$0.35

	Year to Date June 30			
	2001		2000	
	(thousands)			
Revenues	\$637,667		\$495,103	
		EPS		EPS
Income before extraordinary item and cumulative effect of changes in accounting principles	\$ 33,260		\$ 27,315	
Eliminate DTI recorded operating loss	13,863		8,876	
Add DTI operating loss on a 100% basis	(18,219)		(17,970)	
Other adjustments	(460)		(1,356)	
Pro forma loss before extraordinary item and cumulative effect of changes in accounting principles	\$ 28,444	\$0.46	\$ 16,865	\$0.27
Cumulative effect to January 1, 2000 of changes in accounting principles, net of income taxes	-	-	30,073	0.49
DTI's early extinguishment of debt, net of income taxes and minority interests	50,695	0.82	-	-
Pro forma net income	\$ 79,139	\$1.28	\$ 46,938	\$0.76

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

9. Sale of Equity Investments

Sale of KLT Investments II Inc.'s Ownership of Downtown Hotel Group

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

Sale of KLT Gas Properties

On June 28, 2001, KLT Gas sold its 50% ownership in Patrick KLT Gas, LLC for total proceeds of \$41.7 million resulting in a \$19.6 million gain before income taxes. The after income tax gain on the sale was \$11.6 million and \$0.19 per share.

10. New Accounting Pronouncement

FASB has issued FASB Statement No. 142 - Goodwill and Other Intangible Assets. FASB 142 is effective for fiscal years beginning after December 15, 2001. KCPL will adopt FASB 142 on January 1, 2002. Under the new pronouncement, goodwill will be assigned to reporting units and an initial impairment test (comparison of the fair value of a reporting unit to its carrying amount) will be done on all goodwill within six months of initially applying the statement and then at least annually, thereafter. We have not yet quantified the effects of adopting FASB 142 on the Company's financial condition and results of operation. At June 30, 2001, goodwill reported on the Consolidated Balance Sheet totaled \$104.5 million.

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

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

Consolidated Earnings Overview

	Three Months Ended June 30		Year to Date June 30	
	2001	2000	2001	2000
Earnings per share (EPS) summary				
KCPL				
Excluding cumulative effect	\$ 0.37	\$ 0.39	\$ 0.33	\$ 0.43
Cumulative effect of changes in pension accounting	-	-	-	0.49
KCPL EPS	0.37	0.39	0.33	0.92
KLT Inc.				
Excluding extraordinary item	0.23	0.06	0.24	0.03
Extraordinary item: Early extinguishment of debt	-	-	0.26	-
KLT Inc. EPS	0.23	0.06	0.50	0.03
HSS EPS	(0.02)	(0.02)	(0.05)	(0.04)
Reported Consolidated EPS	\$ 0.58	\$ 0.43	\$ 0.78	\$ 0.91

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

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

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

KCPL Operations

KCPL Business Overview

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

The generation business has over 3,700 megawatts of generating capacity including Hawthorn No. 5. The rebuild of the boiler at Hawthorn No. 5 is complete. The unit was returned to commercial operation on June 20, 2001.

The delivery business consists of transmission and distribution that serves over 471,000 customers at June 30, 2001, and experiences annual load growth of approximately 2% to 3% through increased customer usage and additional customers. Rates charged for electricity are currently below the national average. Additionally, there is a moratorium on changes to Missouri retail rates until March 2002.

KCPL has a regulatory obligation to join a Federal Energy Regulatory Commission (FERC) approved Regional Transmission Organization (RTO) by December 2001. RTOs combine regional transmission operations of utility businesses into an organization that schedules transmission services and monitors the energy market to ensure regional transmission reliability and non-discriminatory access. KCPL has been considering its options for joining an RTO. In a recent order, FERC indicated a desire for the numerous RTO's that have been formed and are in the process of being formed, to consolidate into the formation of just four RTOs covering the entire nation. To accomplish that objective, FERC directed an Administrative Law Judge to mediate a potential consolidation among the various RTO's. The Administrative Law Judge has been ordered to issue a report within 45 days from the July 12, 2001 FERC order.

Strategy

In order to add value for its shareholders, the Company plans to restructure by forming a holding company with three operating subsidiaries. These subsidiaries will include:

- - KCPL, a regulated utility;
- - GPP, a competitive generation company that will sell to the wholesale market; and
- - KLT Inc. with its unregulated energy related and telecommunications businesses.

In implementing this strategy, the Company is focused on:

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

The Company is in the process of obtaining the necessary regulatory approvals for the reorganization. Approvals have been received from the FERC, the Federal Communications Commission, the Nuclear Regulatory Commission, the Missouri Public Service Commission and the Kansas Corporation Commission. The Company is expecting approval from the Securities and Exchange Commission shortly.

KCPL Earnings Overview

KCPL contributed EPS of \$0.37 for the three months ended June 30, 2001, compared to \$0.39, for the same period in 2000, and \$0.33 year to date June 30, 2001, compared to \$0.43, excluding the cumulative effect of changes in pension accounting, for the same period in 2000. The following table and discussion highlight significant factors affecting the changes in KCPL's EPS contribution for the periods indicated.

June 30, 2001 compared to June 30, 2000

	Three Months Ended	Year to Date
Increased revenues	\$ 0.09	\$ 0.18
Increased price of purchased power energy	(0.01)	(0.07)
Decrease in quantity of energy and capacity purchased	0.08	0.05
Increased price of fossil fuels	(0.02)	(0.05)
Replacement power cost of Hawthorn units' test energy	(0.02)	(0.02)
Interest charges	(0.03)	(0.08)
Increased depreciation	(0.03)	(0.06)
Other (see discussion below)	(0.08)	(0.05)
Total	\$ (0.02)	\$ (0.10)

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

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

KCPL Megawatt-hour (mwh) Sales and Electric Sales Revenues

June 30, 2001 compared to June 30, 2000

	Three Months Ended		Year to Date	
	Mwh	Revenues	Mwh	Revenues
	(revenue change in millions)			
Retail Sales:				
Residential	5 %	\$ 2.5	11 %	\$ 8.6
Commercial	6 %	5.4	5 %	6.3
Large Industrial Customer	(95) %	(6.7)	(73) %	(7.8)
Industrial - Other	(5) %	(1.3)	(4) %	-
Other	5 %	0.1	1 %	0.1
Total Retail	(1) %	-	1 %	7.2
Sales for Resale:				
Bulk Power Sales	81 %	8.9	27 %	8.9
Other	2 %	-	2 %	0.3
Total	8 %	8.9	4 %	16.4
Other revenues		0.6		1.6
KCPL electric sales revenues		\$ 9.5		\$ 18.0

Residential and commercial mwh sales increased for the three months ended and year to date June 30, 2001, compared to the same periods of 2000, primarily due to warmer spring and early summer weather and colder winter weather for the periods and continued load growth. Load growth consists of higher usage-per-customer and the addition of new customers. Industrial mwh sales decreased for the three months ended and year to date June 30, 2001, compared to the the same periods of 2000 mostly offsetting the increase in residential and commercial mwh sales. The decrease in industrial mwh sales is primarily due to one of KCPL's larger customers filing for bankruptcy on February 7, 2001, and closing its Kansas City, Missouri facilities on May 25, 2001.

Bulk power sales vary with system requirements, generating unit and purchased power availability, fuel costs and requirements of other electric systems. Increased bulk power mwh sales for both the three months ended and year to date June 30, 2001, compared to the same periods in 2000 was partially attributable to the availability of Hawthorn No. 5 and the loss of the large industrial customer discussed above. The increase in bulk power sales year to date June 30, 2001, compared to the same period of 2000 was partially offset by the colder winter weather and continued load growth during the first three months of 2001. The average prices per mwh of bulk power sales were up 17% for the three months ended and 23% year to date June 30, 2001, compared to the same periods of 2000.

KCPL's share of LaCygne No. I unit's capacity has been temporarily reduced by approximately 100 megawatts because of the failure, in mid-July 2001, of one of the two air heaters. KCPL will replace the 30-year old air heaters during a 6-week fall outage at a capitalized cost of \$3 to \$4 million. KCPL anticipates that other units will replace the lost capacity during the outage. However, this outage will reduce bulk power sales in the fourth quarter of 2001.

KCPL Fuel and Purchased Power

Fuel costs increased \$4.2 million for the three months ended and \$7.1 million year to date June 30, 2001, compared to the same periods of 2000. The higher costs per mmBtu of natural gas and the increased generation from coal and natural gas were the reasons for the increase in fuel costs. Total generation, excluding the testing of Hawthorn units prior to commercial operation, increased 9% for the three months ended and 3% year to date June 30, 2001, compared to the same periods of 2000. Natural gas has a significantly higher cost per mmBtu than coal or nuclear fuel.

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

Purchased power expenses decreased \$7.0 million for the three months ended June 30, 2001, compared to the same period of 2000 primarily due to a 40% decrease in mwh's purchased due to an increase in the availability of KCPL's generating units and a decline in capacity purchased. However, the decrease was slightly offset by an increase in the price per mwh of purchased power. Purchased power expenses increased \$2.4 million year to date June 30, 2001, compared to the same period of 2000 primarily due to an increase in the price per mwh partially offset by a decline in capacity costs. The cost per mwh for purchased power is significantly higher than the fuel cost per mwh of generation.

KCPL Other Income and Expenses

The \$1.0 million favorable change in KCPL's other income and expenses year to date June 30, 2001, compared to the same period of 2000 was caused primarily by a \$1.7 million increase in the allowance for equity funds used during construction. This increase represents mainly the cost of capital used to finance expenditures during construction of Hawthorn No. 5 that arose from other than short- and long-term debt. This cost, along with the interest on borrowed funds used during construction, is capitalized as a component of the construction cost. The increase in the allowance for equity funds used during

construction was partially offset by an increase in the write-off of billings primarily related to the bankruptcy filing of one of KCPL's larger customers.

KCPL Interest Charges

KCPL's interest charges increased \$3.0 million for the three months ended and \$8.5 million year to date June 30, 2001, compared to the same periods of 2000 primarily because long-term debt interest expense increased offset by an increase in interest charged to construction. The increase in interest expense reflected higher average levels of outstanding long-term debt. The higher average levels of debt primarily reflect \$200 million of unsecured, floating rate medium-term notes issued by KCPL in March 2000, and \$250 million of unsecured fixed-rate senior notes issued in December 2000, partially offset by \$60.5 million of scheduled debt repayments by KCPL since June 30, 2000.

Short-term debt interest expense increased for the three months ended and year to date June 30, 2001, compared to the same periods of 2000 due to higher average levels of outstanding short-term debt. KCPL had \$245.8 million of commercial paper outstanding at June 30, 2001, compared to \$159.4 million at June 30, 2000.

KCPL uses interest rate swap and cap agreements to limit the volatility in interest expense on a portion of its variable-rate, long-term debt. Although these agreements are an integral part of interest rate management, the incremental effect on interest expense and cash flows is not significant.

Allowance for borrowed funds used during construction increased \$1.0 million for the three months ended and \$2.6 million year to date June 30, 2001 compared to the same periods of 2000 because of increased expenditures for construction projects, including Hawthorn No. 5.

Wolf Creek

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

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

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

Hawthorn No. 5

On June 20, 2001, Hawthorn No. 5 was returned to commercial operation. The coal-fired unit has a capacity of 550 megawatts and was rebuilt following a February 1999 explosion that destroyed the boiler. KCPL has been recognized nationally in President Bush's National Energy Policy Report for its use of state-of-the-art pollution control technology in the rebuilt Hawthorn No. 5. Under KCPL's property insurance coverage, with limits of \$300 million, KCPL received an additional \$30 million in insurance recoveries year to date June 30, 2001, increasing the total insurance recoveries received to date to \$160 million. The recoveries have been recorded in Utility Plant - accumulated depreciation on the consolidated balance sheet. Expenditures, excluding capitalized interest, for rebuilding Hawthorn No. 5, were \$35.6 million in 1999, \$207.6 million in 2000 and are projected to be about \$73 million in 2001, of which \$53.9 million were incurred year to date June 30, 2001. These amounts have not been reduced by the insurance proceeds received to date or future proceeds to be received.

KLT Inc. Operations

KLT Inc. Business Overview

KLT Inc., an unregulated subsidiary, pursues business ventures in higher growth businesses. Existing ventures include investments in telecommunications, natural gas development and production, energy services and affordable housing limited partnerships. KCPL's investment in KLT Inc. was \$150 million at June 30, 2001, and \$119 million at December 31, 2000.

Telecommunications - DTI Holdings, Inc. (DTI)

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

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

Responding to the current challenges of the telecommunications industry, DTI has more narrowly focused its strategy. In order to reduce the capital requirements, DTI will only provide connectivity in secondary and tertiary markets in five states. In addition, DTI is evaluating means to enhance its business by utilizing the significant metropolitan fiber assets that it has in its current regional network to provide metro access services, including high bandwidth services over an Ethernet based network targeted at enterprise customers (i.e., Gigabit Ethernet services). DTI estimates that their total additional cash funding requirements subsequent to June 30, 2001, necessary to implement this strategy and to fund existing commitments and payables, will be approximately \$33 million over the next 18 months. This \$33 million estimated funding requirement consists of (i) approximately \$25 million related to the five-state region strategy and , (ii) approximately \$8 million to fund the metro access strategy. Despite the difficult telecommunications marketplace, DTI continues to grow its business by expanding existing contracts and securing new business including one with the country's largest discount retailer. On the network development front, DTI plans to complete the lighting of its Kansas/Oklahoma ring in early August. The company has also made significant progress in completing its backbone construction. DTI is actively exploring its strategic alternatives including a merger, sale of assets or other type of recapitalization.

KLT Telecom had committed to provide or arrange a revolving credit facility for DTI in the amount of \$75 million. A credit facility with bank lenders has not been possible to obtain due to, among other things, the downturn in the telecommunications industry. Under this arrangement, KLT Telecom has loaned DTI a total of \$44.5 million (\$5.5 million was loaned on July 26, 2001). This loan is secured, to the extent permitted by law or agreement, by DTI's assets. The DTI Board of Directors confirmed that KLT Telecom is not obligated to make any other future loans to DTI. This confirmation was based on the downturn in the telecommunications industry and the resulting decline in DTI's prospects and financial

condition. However, KLT Telecom has agreed to review DTI's revised business plan and to consider, in its sole judgment, lending up to the remaining \$30.5 million contemplated by its original commitment.

Including the loans to date detailed above, interest accrued on these loans and goodwill recorded, KLT Telecom has \$196.5 million invested in DTI. KLT's assets include assets associated with DTI of \$463.7 million.

Because of the downturn in the telecommunication industry, an impairment analysis was performed on the DTI assets in accordance with FASB 121 - Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of, which requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The analysis indicated there was no impairment at this time.

Natural Gas Development and Production - KLT Gas

KLT Gas' business strategy is to acquire and develop early stage coalbed methane properties and then divest properties in order to create shareholder value. KLT Gas believes that coalbed methane production provides an economically attractive alternative source of supply to meet the growing demand for natural gas in North America and has built a knowledge base in coalbed methane production and reserves evaluation. Therefore, KLT Gas focuses on coalbed methane; a niche in the natural gas industry where it believes its expertise gives it a competitive advantage. Because it has a longer, predictable reserve life, coalbed methane is inherently lower risk than conventional gas exploration. Although gas prices have been volatile recently, KLT Gas continues to believe the long-term future price scenarios for natural gas appear strong. Environmental concerns and the increased demand for natural gas for new electric generating capacity are contributing to this projected growth in demand.

KLT Gas' properties are located in Colorado, Texas, Wyoming, Kansas, and Nebraska. These leased properties cover approximately 185,000 undeveloped acres. The development of this acreage is in accordance with KLT Gas' exploration plan and capital budget. The timing of the development may vary from the plans based upon obtaining the required environmental and regulatory approvals and permits.

Energy Management Service - Strategic Energy LLC (SEL)

SEL is an energy management services provider that operates in the newly deregulated electricity markets of Pennsylvania, Southern California, Ohio and New York and has plans to enter the Massachusetts and Texas markets during the second half of 2001. In 2001, in exchange for approximately \$4.7 million preferred stock ownership in an energy services company, the ownership in SEL was increased from approximately 72% to approximately 83%.

SEL acts as an energy manager in deregulated markets on behalf of over 12,600 commercial and small manufacturing customers. SEL enters into one to five year contracts with customers to supply energy and manage their energy needs. For this service they receive an ongoing management fee plus the contracted price for the electricity and natural gas.

SEL's suppliers and customer base are very diverse. Suppliers include small and large energy generators across the country. Customers include numerous Fortune 500 companies, school districts, and governmental entities. SEL's customer base is currently concentrated in the four previously mentioned deregulated states. Based on current signed contracts and expected usage, SEL forecasts a peak load of 1,160 megawatts for 2001. The largest concentration of the forecasted load, 467 megawatts, is in Pennsylvania.

Investments in Affordable Housing Limited Partnerships - KLT Investments
 At June 30, 2001, KLT Investments had \$96.0 million in affordable housing limited partnerships. About 71% of these investments were recorded at cost; the equity method was used for the remainder. Tax expense is reduced in the year tax credits are generated. The investments generate future cash flows from tax credits and tax losses of the partnerships. The investments also generate cash flows from the sales of the properties (estimated residual value). For most investments, tax credits are received over ten years. A change in accounting principle relating to investments made after May 19, 1995, requires the use of the equity method when a company owns more than 5% in a limited partnership investment. Of the investments recorded at cost, \$66.0 million exceed this 5% level but were made before May 19, 1995.

On a quarterly basis, KLT Investments completes a valuation study of its cost method investments in affordable housing by comparing the cost of those properties to the total of projected residual value of the properties and remaining tax credits to be received. Estimated residual values are based on studies performed by an independent firm. Based on the latest valuation study for the years 2001 through 2005, projected annual reductions of the book cost total \$13 million, \$9 million, \$12 million, \$8 million and \$7 million, respectively. Primarily all of the estimated reductions for the year ended December 31, 2001, are expected to be incurred in the third and fourth quarters. Even after these reductions, earnings from affordable housing are expected to be positive for the next five years.

These projections are based on the latest information available but the ultimate amount and timing of actual reductions made could be significantly different from the above estimates. Also, based on preliminary external information, management believes that the assets could be sold at a loss significantly lower than the accumulated reductions discussed above.

KLT Inc. Earnings Overview

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

	Three Months Ended June 30		Year to Date June 30	
	2001	2000	2001	2000
Earnings per share (EPS) summary				
KLT Inc.				
SEL	\$ 0.10	\$ 0.03	\$ 0.12	\$ 0.04
DTI				
Operations subsequent to 2/8/01	(0.12)	-	(0.18)	-
Gain on early extinguishment of debt and equity losses prior to majority ownership	-	(0.07)	0.26	(0.14)
KLT Gas				
Operations	-	0.05	0.02	0.08
Sale of Patrick Energy	0.19	-	0.19	-
Realized loss on CellNet stock	-	-	-	(0.05)
Other	0.06	0.05	0.09	0.10
KLT Inc. EPS	\$ 0.23	\$ 0.06	\$ 0.50	\$ 0.03

On June 28, 2001, KLT Gas sold its 50% equity ownership in Patrick Energy Corporation for \$41.7 million resulting in a gain of \$11.6 million, net of income taxes.

In February 2001, KLT Telecom increased its investment in DTI from 47% to 84%, which required a change in the method of accounting from equity to consolidation. DTI's \$0.26 EPS contribution prior to the change in ownership resulted from the net impact of the gain from early extinguishment of \$193 million of senior discount notes by DTI reduced by the losses previously recorded by DTI but not reflected by KLT Telecom. This gain is reflected in the consolidated financial statements as an extraordinary item.

KLT Inc. Revenues

June 30, 2001 compared to June 30, 2000

	Three Months Ended	Year to Date
	(millions)	
DTI	\$ 4.7	\$ 7.0
SEL		
Electric - Retail	31.7	68.3
Electric - Bulk Power Sales	9.4	24.8
Gas	0.3	10.9
Gas	(10.1)	(16.6)
Total	\$ 36.0	\$ 94.4

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

SEL's retail revenues increased due to continued strong growth in the electric energy management business. Gas revenues decreased due to the sale of KLT Gas properties in September and October 2000.

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

KLT Inc. Other Income and Expenses

The \$5.5 million favorable change in KLT Inc.'s other expenses year to date June 30, 2001, compared to the same period of 2000 was primarily due to \$4.8 million of realized losses on the write off of an investment in CellNet in 2000.

KLT Inc. Taxes

KLT Inc. accrued tax credits of \$6.4 million and \$13.0 million for the three months ended and year to date June 30, 2001, and \$6.8 million and \$13.7 million for the three months ended and year to date June 30, 2000. These tax credits are related to investments in affordable housing limited partnerships and natural gas properties.

HSS Operations

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

KCPL's investment in HSS was \$46.9 million at June 30, 2001, and \$46.3 million at December 31, 2000. HSS' loss year to date June 30, 2001, totaled \$3.4 million (\$0.05 per share) compared to a loss of \$2.2 million (\$0.04 per share) year to date June 30, 2000. HSS' increased loss year to date June 30, 2001, compared to 2000, was primarily due to increased losses associated with property dispositions at RSAE. At June 30, 2001, the Company's accumulated losses were \$21.4 million on its investment in HSS. HSS' consolidated assets increased to \$56.1 million at June 30, 2001, compared to \$25.3 million at December 31, 2000, reflecting the consolidation of RSAE in 2001.

Great Plains Power Incorporated (GPP)

GPP will focus on fossil fuel-fired electric generation in the central part of the U.S. In April 2001, KCPL entered into a \$200 million, five-year operating lease agreement for five combustion turbines that would add 385 megawatts of peaking capacity in 2003. Some or all of those units may be transferred to GPP. If transferred, a significant portion of the output from some of these units may be sold to KCPL.

GPP announced an agreement with the boiler and air quality control equipment vendor and construction firm, Babcock and Wilcox, and the design and engineering firm, Burns and McDonnell, to conduct the design and development study for Weston Bend I, a coal-fired plant near Weston, Missouri. This agreement reunites the same team that rebuilt Hawthorn No. 5 in 22 months rather than the industry norm of 36 months. GPP is considering building, in the Midwest region, one to five coal-fired plants ranging from 500 to 900 megawatts each. Weston Bend I is anticipated to be on line late in 2005. All plants built by GPP would be constructed to serve the wholesale market.

Other Consolidated Discussion

Significant Consolidated Balance Sheet Changes

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

- Cash and cash equivalents decreased \$17.1 million due to KLT Telecom's payment of \$39.9 million to increase its investment in DTI and \$39.0 million working capital used for DTI's operations offset by \$41.7 million proceeds from the sale of KLT Gas' 50% equity ownership in Patrick Energy, \$20.8 million proceeds from the sale of securities and \$3.8 million proceeds from the sale of KLT's equity ownership in the Downtown Hotel Group.
- Receivables increased \$65.2 million primarily due to an increase in SEL's electric business and the seasonal nature of the utility business.
- Equity securities decreased \$13.1 million primarily due to the sale by KLT Gas of \$12.3 million of stock in Evergreen Resources, Inc.
- Other current assets increased \$13.0 million primarily due to a \$6.9 million increase in KCPL prepayments and \$5.9 million because of FASB 133 - Accounting for Derivative Instruments and Hedging Activities, as amended. (See Note 6 to the Consolidated Financial Statements)
- Telecommunications property of \$384.8 million at June 30, 2001, resulted from KLT Telecom's purchase of an additional ownership interest in DTI; which required a change in the method of accounting for DTI from equity to consolidation.

- Gas property and investments decreased \$18.7 million primarily due to the sale of KLT Gas' 50% equity ownership in Patrick Energy.
- Other nonutility property and investments decreased \$15.2 million due to the sale by KLT of its \$1.8 million investment in the Downtown Hotel Group, the sale of \$7.3 million of various other investments and the exchange of \$4.7 million preferred stock in an energy services company for an additional ownership in SEL.
- Combined electric utility plant and construction work in progress increased \$116.2 million primarily due to expenditures of \$63.5 million at Hawthorn No. 5 to rebuild the boiler and \$64.1 million for other utility capital expenditures. The completion of rebuilding the boiler at Hawthorn No. 5 resulted in a transfer of \$288.0 million from construction work in progress to electric plant.
- Goodwill increased \$93.1 million due to increased goodwill at June 30, 2001, of \$66.6 million resulting from the consolidation of DTI and an additional \$3.2 million in goodwill recorded because of increased ownership in SEL. An additional \$23.3 million of goodwill at June 30, 2001, relates to the consolidation of RSAE, resulting from an increased ownership by HSS.
- Notes payable to banks of \$22.3 million includes \$18.7 million of short-term notes at June 30, 2001, relating to the consolidation of RSAE and \$3.6 million relating to short-term notes held by DTI.
- Commercial paper increased \$190.2 million due to the repayment of medium-term notes of \$50 million and additional commercial paper borrowings as expenditures exceeded cash receipts.
- Current maturities of long-term debt increased \$174.7 million, reflecting a \$227.0 million increase in the current portion of KCPL's medium-term notes offset by \$50.0 million of maturing medium-term notes.
- Other current liabilities increased \$47.7 million because of \$8.2 million at June 30, 2001, due to the consolidation of RSAE, as well as \$28.5 million because of the adoption of FASB 133 and \$11.7 million at June 30, 2001, due to the consolidation of DTI.
- Deferred telecommunications revenue of \$47.3 million at June 30, 2001, is due to the consolidation of DTI. This deferred revenue results from advances under contracts being deferred and then recognized on a straight-line basis as revenue over the terms of the contract. In many cases, recognition does not start until completion of specified route segments.
- Capitalization increased by \$45.6 million due to the consolidation of \$200.6 million of DTI's senior discount notes at June 30, 2001, and \$94.0 million of borrowings by KLT Inc. These increases were offset by \$227.0 million of medium-term notes transferred to current maturities and a loss of \$10.9 million in other comprehensive income because of FASB 133.

Capital Requirements and Liquidity

The Company's liquid resources at June 30, 2001, included cash flows from operations, \$150 million of registered but unissued debt securities, and \$102 million of unused bank lines of credit. The unused lines consisted of KCPL's short-term bank lines of credit of \$71 million and KLT Inc.'s bank credit agreement of \$31 million.

The Company generated positive cash flows from operating activities year to date June 30, 2001. Individual components of working capital will vary with normal business cycles and operations, such as the increase in receivables of \$60.1 million year to date June 30, 2001, and the reduction of accounts payable by \$41.1 million for the same period. Also, the timing of the Wolf Creek outage affects the refueling outage accrual, deferred income taxes and amortization of nuclear fuel.

Cash used for investing activities varies with the timing of utility capital expenditures and purchases of investments and nonutility property. Cash used for purchases of investments and nonutility property increased year to date June 30, 2001, compared to the same period of 2000 primarily reflecting increased investments by KLT Telecom in DTI and additional telecommunications property partially offset by investments in gas properties during the same period of 2000. The note receivable from DTI

prior to majority ownership is reflected as an investing activity. See additional discussion of DTI loan activity in the Telecommunications section of the KLT Inc. Business overview. These amounts were partially offset by cash received from the sale of KLT Gas' equity position in Patrick Energy Corporation and the sale of securities.

Cash from financing activities increased year to date June 30, 2001, compared to the same period of 2000 primarily because short-term borrowings increased \$197.2 million year to date June 30, 2001, compared to a \$79.3 million decrease for the same period of 2000. However, this change in short-term borrowings was partially offset by a decrease in long-term debt issuances year to date June 30, 2001, compared to the same period of 2000.

The Company expects to meet day-to-day operations, construction requirements (excluding new generating capacity and telecommunications construction) and dividends with internally-generated funds. However, the Company might not be able to meet these requirements with internally-generated funds because of the effect of inflation on operating expenses, the level of mwh sales, regulatory actions, compliance with future environmental regulations and the availability of generating units. The funds needed to retire \$747 million of maturing debt through the year 2005 will be provided from operations, refinancings and/or short-term debt. The Company may issue additional debt and/or additional equity to finance growth or take advantage of new opportunities.

Environmental Matters

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

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

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

Commodity Risk

KCPL has approximately 95% of its forecasted coal requirements under contract for the year 2001. A portion of these coal requirements are subject to the market price of coal. Because of the increased price of coal, KCPL's coal commitments for 2001 have increased 11% to \$39.9 million since the 2000 annual report on Form 10-K was filed. A hypothetical 10% increase in the price of coal would result in an immaterial decrease in the year 2001 pretax earnings.

Equity Price Risk

An equity security, with a cost basis of \$4.7 million, is considered a trading security and as such has been recorded at its fair value of \$5.5 million at June 30, 2001. This equity security is exposed to price fluctuations in equity markets. A hypothetical 10% decrease in equity prices would result in an immaterial reduction in the fair value of this equity security.

PART II - OTHER INFORMATION

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

EXHIBITS

- Exhibit 10-a Lease dated April 27, 2001 between Kansas City Power & Light Company and Wells Fargo Bank Northwest, National Association.
- Exhibit 10-b Amendment No. 4 to Credit Agreement dated as of April 30, 2001, among KLT Inc. and Bank One, NA, as Agent.
- Exhibit 10-c Amendment No. 2 dated June 4, 2001 to Credit Agreement among KLT Telecom Inc. and Digital Teleport, Inc.

REPORTS ON FORM 8-K

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

SIGNATURES

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

KANSAS CITY POWER & LIGHT COMPANY

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

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

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Lease

Dated as of April 27, 2001
 between
 Kansas City Power & Light Company,
 as the Lessee
 and
 Wells Fargo Bank Northwest, National
 Association,
 a national banking association,
 as Lessor

Kansas City Power & Light Company Project 2001
 Lease Financing

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This Lease is encumbered by a lien in favor of First Security Trust Company of Nevada, as Administrative Agent for the benefit of the Participants. This Lease has been executed in several counterparts. To the extent, if any, that this Lease constitutes chattel paper (as such term is defined in the Uniform Commercial Code as in effect in any applicable jurisdiction), no lien on this Lease may be created through the transfer or possession of any counterpart other than the original counterpart containing the receipt therefor executed by the Administrative Agent on or following the signature page hereof.

THIS COUNTERPART IS [NOT] THE ORIGINAL COUNTERPART.

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Signature

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Exhibits

- Exhibit A - Form of Memorandum of Lease
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LEASE

This Lease dated as of April 27, 2001 (as amended, supplemented, or otherwise modified from time to time, this "LEASE"), between Wells Fargo Bank Northwest, National Association, a national banking association, as Lessor ("LESSOR"), and Kansas City Power & Light Company, a Missouri corporation ("LESSEE").

WITNESSETH:

A. The parties are now entering into the Operative Documents in order to provide financing for the Leased Property.

B. During the Commitment Period, Lessor, using Advances funded by the Participants, will reimburse Lessee or pay directly to the Persons entitled thereto the Project Costs. Pursuant to the Project Supervisory Agreement being entered into between Lessor and Lessee, as Supervisory Agent, Supervisory Agent will supervise (i) the purchase and Shipment of the Equipment under the Equipment Contracts and (ii) the assembly and installation of the Equipment and the construction of the Financed Improvements pursuant to the Project Agreements.

C. Pursuant to this Lease, Lessor will lease the Leased Property, inclusive of Lessor's leasehold interest in the Leased Property, to Lessee and Lessee will lease the Leased Property from Lessor.

Now, Therefore, in consideration of the foregoing, and of other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

ARTICLE I DEFINITIONS; EFFECTIVENESS

SECTION 1.1. DEFINITIONS; INTERPRETATION. For all purposes hereof, the capitalized terms used herein and not otherwise defined shall have the meanings assigned thereto in Appendix 1 to that certain Participation Agreement dated as of even date herewith, among Kansas City Power & Light Company, as Lessee; Wells Fargo Bank Northwest, National Association, not in its individual capacity, except as expressly stated therein, but solely as Certificate Trustee and Lessor; First Security Trust Company of Nevada, not in its individual capacity except as expressly stated therein, but solely as Administrative Agent; the financial institutions named on Schedule I thereto, as Certificate Holders; the financial institutions listed on Schedule II thereto as Lenders (as amended, supplemented or otherwise modified from time to time pursuant thereto, the "PARTICIPATION AGREEMENT"); and the rules of interpretation set forth in Appendix 1 to the Participation Agreement shall apply to this Lease. All obligations imposed on the "Lessee" in this Lease shall be full recourse liabilities of Lessee.

ARTICLE II
LEASE OF LEASED PROPERTY; LEASE TERM

SECTION 2.1. ACCEPTANCE AND LEASE OF THE LEASED PROPERTY.

(a) Lessor, subject to the satisfaction or waiver of the conditions set forth in Article VI of the Participation Agreement, hereby agrees to enter into the Ground Lease for the Site and to provide funds for the purchase and construction of the Equipment and the Financed Improvements.

(b) Beginning on the Base Term Commencement Date, Lessor hereby leases all of Lessor's interest in the Leased Property to Lessee hereunder, and Lessee hereby leases pursuant to the terms hereof the Leased Property from Lessor for the Term.

SECTION 2.2. ACCEPTANCE, TESTING AND INITIAL USE PROCEDURES.

Lessor hereby authorizes Lessee, as the authorized representative of Lessor, to accept delivery of the Leased Property, including without limitation the Equipment and the Financed Improvements to be constructed on the Site[s], upon the Base Term Commencement Date. Lessee hereby agrees that, subject to Section 2.3(b), delivery at the Site and payment from Advances for any portion of the Financed Improvements shall, without further act, constitute the irrevocable acceptance by Lessee of all such Financed Improvements for all purposes of this Lease and the other Operative Documents on the terms set forth herein and therein and shall constitute Lessee's agreement to lease the Leased Property pursuant to the terms hereof during the Term. Notwithstanding anything herein to the contrary, the acceptance of the Financed Improvements for purposes of this Lease shall not constitute and shall not be deemed to be acceptance thereof under any Project Agreement. Pursuant to the Project Supervisory Agreement, the Lessee will test the Units, and, to the extent the Units are capable of use prior to the Base Term Commencement Date, the Lessee is granted a license and is authorized to use the Units in the ordinary course of its business. The Lessee agrees that the testing and use prior to the Base Term Commencement Date of the Units will be subject to the terms of Articles VIII and IX hereof and may not occur unless the insurance required by Article XIII is fully effective and applicable in respect of such Units, except to the extent that equivalent coverage is provided under the insurance obtained by the Supervisory Agent pursuant to the Project Supervisory Agreement and in full force and effect.

SECTION 2.3. TERM.

(a) Unless earlier terminated, the term of this Lease shall consist of (i) a base term (the "BASE TERM") commencing on and including the Base Term Commencement Date and ending on but not including the fifth anniversary of the Document Closing Date, and, (ii) if exercised and approved pursuant to each of the terms and conditions of Section 4.7 of the Participation Agreement and exercised pursuant to the terms of this Lease, including Article XIX hereof, each Lease Renewal Term (the Base Term and the Lease Renewal Terms, if any, being collectively referred to as, the "TERM").

(b) Prior to the Base Term Commencement Date, the Leased Property shall be subject to the provisions of this Lease as it is acquired, constructed or equipped as the case may be, but only to the extent and subject to the limitations set forth in Section 2.6(b)(viii) of the Project Supervisory Agreement.

SECTION 2.4. TITLE. The Leased Property is leased to the Lessee without any representation or warranty, express or implied (other than with respect to the absence of Lessor Liens), by the Lessor and subject to the rights of parties in possession, the existing state of title with respect thereto and all Applicable Laws and any violations thereof. The Lessee shall in no event have any recourse against the Lessor for any defect in or exception to title to the Leased Property or any Unit other than resulting from Lessor Liens created by Lessor or a breach by the Lessor of its obligations under Article XXI.

SECTION 2.5. CONTRACT MATTERS. Lessor hereby transfers to Lessee and assigns without warranty of any kind, during the Term, effective upon the Base Term Commencement Date and so long as no Event of Default exists, any warranties made by the Manufacturers with respect to the Equipment and each General Contractor or any other Person under the Project Agreements with respect to the Financed Improvements but excluding in each case Liquidated Damages, which will be applied pursuant to Section 5.3(d)(ii) of the Participation Agreement. If necessary, the Lessor will join in any proceedings to enforce any such warranties or permit them or any part thereof to be brought in its name if and so long as (i) no Event of Default exists and (ii) the Lessee agrees in writing to pay, and pays, all related expenses. Lessee hereby acknowledges, and agrees to comply with and be bound by, the limitations of liability of and protection of each Manufacturer, each General Contractor and each other Person against liability as and to the extent provided in the Equipment Contracts and each Project Agreement. Lessee hereby further agrees to comply with and be bound by the provisions of the Equipment Contracts regarding the protection of proprietary information as and to the extent provided in said contracts.

SECTION 2.6. [INTENTIONALLY DELETED]

SECTION 2.7. GROUND LEASES. (a) This Lease is and shall be at all times subject to all of the terms, covenants and conditions of the Ground Leases and shall in all respects be limited to the estate granted to Lessor by Ground Lessor pursuant to the Ground Leases. Excluding only the obligations with regard to the payment of basic rental under the Ground Leases, Lessee assumes and agrees to be bound by the terms of and to perform all of the obligations and duties of Lessor under the Ground Leases. Lessee shall not commit or permit to be committed any act or omission which shall violate any terms, covenants or conditions of the Ground Leases. Lessee agrees that it shall promptly forward to Lessor any and all notices or other communications received by Lessee from the Ground Lessor under the Ground Leases.

(b) Where any approval or consent shall be required of Lessor pursuant to the provisions of this Lease, any other Operative Document, or the Ground Leases, Lessor may, without limitation, condition its approval or consent upon the obtaining of approval or consent of the Ground Lessor, at Lessee's sole cost and expense, where such consent or approval is, or may in the reasonable opinion of Lessor be, required under the Ground Leases. To the extent that the terms of the Ground Leases are more restrictive than the terms of the Lease, the terms of the Ground Leases shall be deemed incorporated herein as applicable.

(c) Lessor shall not agree to an amendment to or other modification to the Ground Lease without the prior written consent of Lessee, which consent Lessee may withhold in its sole and absolute discretion.

ARTICLE III
PAYMENT OF RENT

SECTION 3.1. RENT. (a) During the Term, the Lessee shall pay Basic Rent on each Payment Date, on the date required under Section 20.1(i) in connection with the Lessee's exercise of the Sale Option and on any date on which this Lease shall terminate with respect to the Leased Property.

(b) The Lessee's inability or failure to take possession of all or any portion of the Leased Property when accepted or deemed accepted hereunder, whether or not attributable to any act or omission of the Lessee or any act or omission of the Lessor, shall not delay or otherwise affect the Lessee's obligation to pay Rent in accordance with the terms of this Lease.

SECTION 3.2. PAYMENT OF BASIC RENT. Basic Rent shall be paid absolutely net to the Lessor, so that this Lease shall yield to the Lessor the full amount thereof, without setoff, deduction or reduction.

SECTION 3.3. SUPPLEMENTAL RENT. The Lessee shall pay to the Lessor or the Person entitled thereto any and all Supplemental Rent promptly as the same shall become due and payable, and if the Lessee fails to pay any Supplemental Rent, the Lessor shall have all rights, powers and remedies provided for herein or by law or equity or otherwise in the case of nonpayment of Basic Rent. Lessee hereby reaffirms that its obligation to pay Supplemental Rent shall include the payment of any and all Contingent Rent. The Lessee shall pay to the Lessor, as Supplemental Rent, among other things, on demand, to the extent permitted by Applicable Laws, interest at the applicable Overdue Rate on any installment of Basic Rent not paid when due for the period for which the same shall be overdue and on any payment of Supplemental Rent payable to the Lessor or any Indemnitee not paid when due for the period from the due date until the same shall be paid. The expiration or other termination of the Lessee's obligations to pay Basic Rent hereunder shall not limit or modify the obligations of the Lessee with respect to Supplemental Rent. Unless expressly provided otherwise in this Lease, in the event of any failure on the part of the Lessee to pay and discharge any Supplemental Rent as and when due, the Lessee shall also promptly pay and discharge any fine, penalty, interest or cost which may be assessed or added under any agreement with a third party for nonpayment or late payment of such Supplemental Rent, all of which shall also constitute Supplemental Rent.

SECTION 3.4. METHOD OF PAYMENT. Each payment of Rent shall be made by the Lessee to the Administrative Agent prior to 2:00 p.m., New York City time to the account at the Administrative Agent designated on Schedule III to the Participation Agreement (or in the case of Excepted Payments directly to the Person entitled thereto) in funds consisting of lawful currency of the United States of America which shall be immediately available on the scheduled date when such payment shall be due, unless such scheduled date shall not be a Business Day, in which case such payment shall be made on the next succeeding Business Day unless the result of such extension would be to carry into another calendar month, in which case such payment shall be made on the immediately preceding Business Day. Payments received after 2:00 p.m. New York City time on the date due shall for the purpose of Section 16.1 hereof be deemed received on such day; PROVIDED, HOWEVER, that for the purposes of the second sentence of Section 3.3

hereof, such payments shall be deemed received on the next succeeding Business Day and subject to interest at the Overdue Rate as provided in such Section 3.3.

ARTICLE IV
QUIET ENJOYMENT; RIGHT TO INSPECT

SECTION 4.1. NON-INTERFERENCE. Subject to Section 4.2 hereof and subject to Lessor's cure rights, as provided for in Section 17.1, Lessor covenants that it will not interfere or authorize any person to interfere in Lessee's use or possession of the Leased Property during the Term pursuant to the terms of this Lease, the Lessee being granted the right to peaceful possession, use and quiet enjoyment of the Leased Property, so long as no Event of Default has occurred and is continuing, it being agreed that Lessee's remedies for breach of the foregoing covenant shall be limited to a claim for damages or the commencement of proceedings to enjoin such breach or seek specific performance of the covenant, as applicable. Such right is independent of and shall not affect Lessee's obligations hereunder and under the other Operative Documents or Lessor's rights otherwise to initiate legal action to enforce the obligations of Lessee under this Lease. The foregoing covenant shall not require Lessor to take any action contrary to, or which would permit Lessee to use the Leased Property for a use not permitted under the provisions of this Lease.

SECTION 4.2. INSPECTION AND REPORTS. (a) Upon five (5) Business Days' prior notice (or two (2) Business Days' prior notice during the existence of an Event of Default) to Lessee, Lessor or its authorized representatives (the "INSPECTING PARTIES") at any time during the Term may inspect (a) the Leased Property and (b) the books and records of Lessee relating to the Leased Property and make copies and abstracts therefrom and may discuss the affairs, finances and accounts with respect to the Leased Property with Lessee's officers, Lessee's independent public accountants (and, by this provision, Lessee authorizes and directs its independent public accountants to discuss such matters with the Inspecting Parties; PROVIDED, HOWEVER, that so long as no Event of Default shall have occurred and be continuing, the Lessor and its authorized representatives shall only be entitled to make one inspection in any twelve (12) month period; PROVIDED, FURTHER, that such limitation shall not be applicable during the period following the exercise and continuance of the Sale Option by the Lessee. All such inspections shall be during Lessee's normal business hours, shall be subject to Lessee's customary safety and security provisions and shall be at the expense and risk of the Inspecting Parties, except that, if an Event of Default or Default has occurred and is continuing, Lessee shall reimburse the Inspecting Parties for the reasonable costs of such inspections and such inspection shall be at Lessee's expense. No inspection shall unreasonably interfere with Lessee's operations. None of the Inspecting Parties shall have any duty to make any such inspection or inquiry. None of the Inspecting Parties shall incur any liability or obligation by reason of making any such inspection or inquiry unless and to the extent such Inspecting Party causes damage to the Leased Property or any property of Lessee or any other Person during the course of such inspection.

(b) To the extent permissible under Applicable Laws, during the Term Lessee shall prepare and file in timely fashion, or, where Lessor shall be required to file, Lessee shall prepare and make available to Lessor within a reasonable time prior to the date for filing and Lessor shall file, any reports with respect to the condition or operation of the Leased Property that shall be required to be filed with any Governmental Authority.

ARTICLE V
NET LEASE, ETC.

SECTION 5.1. NET LEASE, ETC. This Lease shall constitute a net lease and Lessee's obligations hereunder to pay Rent shall be absolute and unconditional under any and all circumstances. Any present or future law to the contrary notwithstanding, this Lease shall not terminate, nor shall the Lessee be entitled to any abatement, suspension, deferment, reduction, setoff, counterclaim, or defense (except prior payment in full of all Obligations then due and payable) with respect to the Rent (except as expressly provided herein at Section 12.1 to the extent a Permitted Contest thereunder relates to the payment of Supplemental Rent to a Person other than Administrative Agent, Lessor or any Participant), nor shall the obligations of the Lessee hereunder be affected (except as expressly herein permitted and by performance of the obligations in connection therewith) by reason of: (i) any defect in the condition, merchantability, design, construction, quality or fitness for use of the Leased Property or any part thereof, or the failure of the Leased Property to comply with all Applicable Laws, including any inability to use the Leased Property by reason of such non-compliance; (ii) any damage to, removal, abandonment, salvage, loss, contamination of, or Release from, scrapping or destruction of or any requisition or taking of the Leased Property or any part thereof; (iii) any restriction, prevention or curtailment of or interference with any use of the Leased Property or any part thereof; (iv) any defect in title to or rights to the Leased Property or any Lien on such title or rights or on the Leased Property (PROVIDED, that the foregoing shall not relieve any Person from its responsibility to remove Lessor Liens attributable to it); (v) any change, waiver, extension, indulgence or other action or omission or breach in respect of any obligation or liability of or by the Lessor, the Administrative Agent or any Participant; (vi) to the fullest extent permitted by Applicable Laws, any bankruptcy, insolvency, reorganization, composition, adjustment, dissolution, liquidation or other like proceedings relating to the Lessee, the Lessor, the Administrative Agent, any Participant or any other Person, or any action taken with respect to this Lease by any trustee or receiver of the Lessee, the Lessor, the Administrative Agent, any Participant or any other Person, or by any court, in any such proceeding; (vii) any claim that the Lessee has or might have against any Person, including without limitation any Participant, or any vendor, manufacturer, contractor of or for the Leased Property, including any Manufacturer or General Contractor; (viii) any failure on the part of the Lessor to perform or comply with any of the terms of this Lease, of any other Operative Document or of any other agreement; (ix) any invalidity or unenforceability or illegality or disaffirmance of this Lease against or by the Lessee or any provision hereof or any of the other Operative Documents or any provision of any thereof; (x) the impossibility or illegality of performance by the Lessee, the Lessor or both; (xi) any action by any court, administrative agency or other Governmental Authority; (xii) any restriction, prevention or curtailment of or interference with the Construction on or use of the Leased Property or any part thereof; (xiii) the failure of Lessee or any of its Affiliates to achieve any accounting or tax benefits or the characterization of the transaction intended by the parties as set forth at Section 24.1 hereof and Section 5.1 of the Participation Agreement; or (xiv) any other cause or circumstances whether similar or dissimilar to the foregoing and whether or not the Lessee shall have notice or knowledge of any of the foregoing. The Lessee's agreement in the preceding sentence shall not affect or waive any claim, action or right that the Lessee may have against any Person. The parties intend that the obligations of the Lessee hereunder shall be covenants and agreements that are separate and independent from any obligations of the Lessor

hereunder or under any other Operative Documents and the obligations of the Lessee shall continue unaffected unless such obligations shall have been modified or terminated in accordance with an express provision of this Lease.

SECTION 5.2. NO TERMINATION OR ABATEMENT The Lessee shall remain obligated under this Lease in accordance with its terms and the terms of the other Operative Documents and shall not take any action to terminate, rescind or avoid this Lease (except as pursuant to the terms of this Lease and the other Operative Documents) to the fullest extent permitted by Applicable Laws, notwithstanding any action for bankruptcy, insolvency, reorganization, liquidation, dissolution, or other proceeding affecting the Lessor, the Administrative Agent or any Participant, or any action with respect to this Lease which may be taken by any trustee, receiver or liquidator of the Lessor, the Administrative Agent or any Participant or by any court with respect to the Lessor, the Administrative Agent or any Participant. The Lessee hereby waives, to the extent permitted by Applicable Law, all right to terminate or surrender this Lease (except as provided herein) or to avail itself of any abatement, suspension, deferment, reduction, setoff, counterclaim or defense (other than prior payment in full of all Obligations then due and payable) with respect to any Rent (except as expressly permitted in this Lease at Section 12.1 to the extent a Permitted Contest thereunder relates to the payment of Supplemental Rent to a Person other than Administrative Agent, Lessor or any Participant). The Lessee shall remain obligated under this Lease in accordance with its terms and the terms of the other Operative Documents and the Lessee hereby waives, to the extent permitted by Applicable Law, any and all rights now or hereafter conferred by statute or otherwise to modify or to avoid strict compliance with its obligations under this Lease. Notwithstanding any such statute or otherwise, the Lessee shall be bound by all of the terms and conditions contained in this Lease.

ARTICLE VI
ASSIGNMENTS, SUBLEASES AND DELEGATIONS

Except for assignments and subleases permitted by this Article VI, Lessee may not assign, mortgage, pledge or otherwise transfer to any Person, including an Affiliate of Lessee, at any time, in whole or in part, any of its right, title or interest in, or obligations to or under this Lease and any other Operative Document or to any portion of the Leased Property (except a purchase or sale of the Leased Property as permitted hereby and by the Project Supervisory Agreement), in any case without the prior written consent of the Lessor and the Participants not to be unreasonably withheld, and any such assignment, mortgage or pledge shall be void; PROVIDED, HOWEVER, that Lessee may assign or transfer without such consent (but subject to the conditions set forth below) to the Nonregulated Affiliate such right, title, obligations or interest if, prior to such assignment or transfer:

(a) Lessee causes the Parent Guarantor to execute and deliver to the Participants a guaranty of all of such Nonregulated Affiliate's obligations under the Operative Documents (such guaranty to be in form of Exhibit J to the Participation Agreement);

(b) this Lease and the other Operative Documents are amended to provide for any revisions or additions thereto (including, but not limited to, any covenants,

representations and warranties and Events of Default) in each case, as may be requested by the Participants; and

(c) Lessee, Parent Guarantor and such Nonregulated Affiliate execute and/or deliver such other documents, instruments and opinions, obtain such consents and approvals and perform such filings and recordings and such other acts as may be requested by the Participants.

Except for the leasehold interest granted to Lessor pursuant to the Ground Lease and as expressly permitted in this Article VI, Lessee may not, unless the consent of Lessor is granted, sublease, in whole or in part, any of its right, title or interest in, to or under this Lease or any portion of the Leased Property to any Person except that, notwithstanding the foregoing, following the Base Term Commencement Date, Lessee may, so long as no Event of Default exists, enter into subleases to an Affiliate of Lessee. With respect to any sublease permitted under this Article VI, Lessee shall not sublease any portion of the Leased Property to, or permit the sublease of any portion of the Leased Property by, any Person who shall then be engaged in any proceedings for relief under any bankruptcy or insolvency law or laws relating to the relief of debtors. Any Leased Property subleased pursuant to this Article VI must be used and operated in place at the Site, subject to the terms and conditions of this Lease.

No sublease hereunder will (a) discharge or diminish any of Lessee's obligations to Lessor hereunder or to any other Person under any other Operative Document, and Lessee shall remain directly and primarily liable under the Lease with respect to all of the Leased Property or (b) extend beyond the last day of the Term. Each sublease permitted hereby shall be made and shall expressly provide that it is subject and subordinate to this Lease and the rights of Lessor hereunder, and shall expressly provide for the surrender of the Leased Property subleased by the applicable sublessee at the election of Lessor after an Event of Default.

Lessee shall give Lessor prompt written notice of any sublease permitted under this Article VI, and Lessee shall, within fifteen (15) days after execution of any sublease, deliver to the Administrative Agent a fully executed copy of such sublease.

ARTICLE VII LESSEE ACKNOWLEDGMENTS

SECTION 7.1. CONDITION OF THE LEASED PROPERTY. The Lessee acknowledges and agrees that although the Lessor will own and hold title to the Leased Property, the Lessee, acting as agent, is solely responsible under the terms of the Project Supervisory Agreement (i) subject to the terms of the Equipment Contracts, for the design, development, budgeting and manufacture of the Equipment, (ii) for the design, development, budgeting and construction of the financed improvements, and (iii) any alterations or modifications and all activities conducted in connection therewith. the Lessee further acknowledges and agrees that it is leasing the property "as is" without representation, warranty or covenant (express or implied) by the Lessor, the Administrative Agent or the Participants and in each case subject to (a) the existing state of title (excluding lessor liens), (b) the rights of any parties in possession thereof, (c) any

state of facts which an accurate survey or a physical inspection might show, and (d) violations of requirements of law with respect to the leased Property, Lessee or its operations on or with respect to the Leased Property which may exist on the date hereof or on the acquisition date for the Leased Property. None of the Lessor, any Agent or any of the Participants has made or shall be deemed to have made any representation, warranty or covenant (express or implied except as expressly provided in the Operative Documents) or shall be deemed to have any liability whatsoever as to the title (other than for lessor liens), value, habitability, use, condition, design, operation, or fitness for use of the Leased Property (or any part thereof), or any other representation, warranty or covenant whatsoever, express or implied, with respect to the Leased Property (or any part thereof) and none of the Lessor, the Administrative Agent or the Participants shall be liable for any latent, hidden, or patent defect therein (other than for Lessor Liens) or the failure of the Leased Property, or any part thereof, to comply with any applicable laws. All risks incident to the matters discussed in the preceding sentence, as between Lessor, the Administrative Agent and the Participants, on the one hand, and Lessee, on the other, are to be borne by Lessee. The provisions of this Section 7.1 have been negotiated, and, except to the extent otherwise expressly stated, the foregoing provisions are intended to be a complete exclusion and negation of any representations or warranties by any of Lessor, the Administrative Agent or the Participants, express or implied, with respect to the Leased Property (or any interest therein), that may arise pursuant to any law now or hereafter in effect or otherwise.

SECTION 7.2. RISK OF LOSS. During the Term and subject to the limitations set forth in Section 3.2(c) of the Project Supervisory Agreement, as between Lessee and Lessor, the risk of loss of or decrease in the enjoyment and beneficial use of the Leased Property as a result of the damage or destruction thereof by fire, the elements, casualties, thefts, riots, wars or otherwise is assumed by the Lessee, and the Lessor shall in no event be answerable or accountable therefor.

SECTION 7.3. CERTAIN DUTIES AND RESPONSIBILITIES OF LESSOR. Lessor undertakes to perform such duties and only such duties as are specifically set forth herein and in the other Operative Documents, and no implied covenants or obligations shall be read into this Lease against Lessor, and Lessor agrees that it shall not, nor shall it have a duty to, manage, control, use, sell, maintain, insure, register, lease, operate, modify, dispose of or otherwise deal with the Leased Property or any other part of the Trust Estate in any manner whatsoever, except as required by the terms of the Operative Documents and as otherwise provided herein.

ARTICLE VIII POSSESSION AND USE OF THE PROPERTY, ETC.

SECTION 8.1. POSSESSION AND USE OF THE LEASED PROPERTY. Lessee agrees that the Leased Property will be used solely in the conduct of its business at the Site. At all times during the Term, the Leased Property shall remain in the possession and control of Lessee or a sublessee or assignee permitted hereunder; PROVIDED, HOWEVER that portions of the Equipment may be moved from the Site for maintenance, repair or replacement provided any such maintenance, repair or replacement is promptly undertaken and diligently completed and such Equipment is returned to the Site as promptly as reasonably practicable thereafter. Lessee warrants that the Leased

Property will at all times be used and operated under and in compliance in all material respects with the terms of the Equipment Contracts and any other contracts or agreements applicable to the use or operation of the Leased Property or any portion thereof to which Lessee is a party or by which Lessee is bound, or to the extent contemplated by the Operative Documents or, as a result of any action or omission of Lessee, to which Lessor is a party or by which Lessor is bound and in a manner consistent with the standards applied by the Lessee for Lessee's or its Affiliates' other power generation facilities. Lessee shall not use the Leased Property or any part thereof for any purpose or in any manner that would materially adversely affect the Fair Market Value, utility, remaining useful life or residual value of the Leased Property; other than ordinary wear and tear excepted. Lessee assumes and agrees to pay all fees, charges, costs, assessments, impositions, utilities and other amounts which relate to or arise during the Term in connection with use of the Leased Property. All such charges for utilities imposed with respect to the Leased Property for a billing period during which this Lease expires or terminates (except when Lessee purchases the Leased Property in accordance with the terms of this Lease, in which case Lessee shall be solely responsible for all such charges) shall be adjusted and prorated on a daily basis between Lessee and any purchaser of the Leased Property, and each party shall pay or reimburse the other for each party's PRO RATA share thereof; PROVIDED, that in no event shall Lessor have any liability therefor.

SECTION 8.2. COMPLIANCE WITH REQUIREMENTS OF LAW AND INSURANCE REQUIREMENTS. Subject to the terms of Article XII relating to permitted contests, the Lessee, at its sole cost and expense, shall comply in all material respects with all Applicable Laws (including all Environmental Laws), Insurance Requirements and manufacturer's operating standards and guidelines relating to the Leased Property, including the use, construction and operation thereof whether or not compliance therewith shall require structural or extraordinary changes in the Leased Property or interfere with the use and enjoyment of the Leased Property, and procure, maintain and comply in all material respects with all licenses, permits, orders, approvals, consents and other authorizations required for the use, operation, maintenance, repair and restoration of the Leased Property.

ARTICLE IX MAINTENANCE AND REPAIR; REPORTS

SECTION 9.1. MAINTENANCE AND REPAIR. On and after the Base Term Commencement Date, Lessee, at its own expense, shall at all times and in all material respects (a) maintain the Leased Property in good operating condition, subject to ordinary wear and tear, and in at least as good as the condition of similar property owned or leased by Lessee or its Affiliates and in good repair and condition; (b) maintain the Leased Property in accordance with Prudent Industry Practice and, in any event, in accordance with all Applicable Laws and Industry Standards affecting the Leased Property; (c) maintain the Leased Property in compliance with the Insurance Requirements and, to the extent necessary to preserve the validity of the manufacturer warranties, all manufacturer's suggested maintenance standards which are in effect and to the extent applicable at any time with respect to the Leased Property or any part thereof; (d) make all necessary or appropriate repairs, replacements, restorations and renewals of the Leased Property or any part thereof which may be required to keep the Leased Property in the condition required by the preceding clauses (a) through (c), structural or nonstructural, ordinary or extraordinary,

foreseen or unforeseen, and including, without limitation, repairs, replacements, restorations and renewals; and (e) procure, maintain and comply with all material licenses, permits, orders, approvals, consents and other authorizations required for the maintenance, use and operation, in the ordinary course of the Lessee's business, of the Leased Property. Lessee waives any right that it may now have or hereafter acquire to (x) require Lessor to maintain, repair, replace, restore, alter, remove or rebuild all or any part of the Leased Property or (y) make repairs at the expense of Lessor pursuant to any Applicable Laws or other agreements.

SECTION 9.2. MAINTENANCE AND REPAIR REPORTS. On and after the Base Term Commencement Date, Lessee shall keep maintenance and repair reports in sufficient detail, at least on the same basis as records are kept for similar properties owned or leased by Lessee or any of its Affiliates (other than reporting requirements which are applicable only to a regulated utility), to indicate the nature and date of major work done at or to the Leased Property. Such reports shall be kept on file by Lessee, and shall be made available to Lessor upon reasonable request. Lessee shall give written notice to Lessor of any Event of Loss promptly after Lessee has knowledge thereof.

ARTICLE X
MODIFICATION, ETC.

SECTION 10.1. IMPROVEMENTS AND MODIFICATIONS. (a) In addition to Lessee's obligations as Supervisory Agent under the Project Supervisory Agreement, on and after the Base Term Commencement Date, (i) Lessee, at Lessee's own cost and expense, shall make alterations, renovations, improvements and additions to the Leased Property or any part thereof and substitutions and replacements therefor (collectively, "MODIFICATIONS") which are (A) necessary to repair or maintain the Leased Property in the condition required by Section 9.1; (B) necessary in order for the Leased Property to be in compliance with Applicable Laws in all material respects; or (C) necessary or advisable to restore the Leased Property to its condition existing prior to a Casualty or Condemnation to the extent required pursuant to Article XIV; and (ii) so long as no Event of Default or Default has occurred and is continuing, Lessee, at Lessee's own cost and expense, may undertake Modifications to the Leased Property so long as such Modifications comply in all material respects with Applicable Laws and with Section 9.1 and subsection (b) of this Section 10.1.

(b) The making of any Modifications must be in compliance with the following requirements:

(i) No such Modifications with a cost exceeding \$10,000,000, other than scheduled maintenance to the Equipment required by the Manufacturers' operating standards and guidelines or reasonably anticipated repairs or replacements, shall be made or undertaken except upon not less than thirty days' prior written notice to Lessor.

(ii) No Modifications shall be undertaken (x) in violation in any material respect of the terms of any restriction, easement, condition, covenant or other similar matter affecting title to or binding on the Leased Property or (y) until Lessee shall have procured and paid for, so far as the same may be required from time to time, all material

permits and authorizations to such Modifications of all Governmental Authorities having jurisdiction. Lessor, at Lessee's expense, shall join in the application for any such permit or authorization and execute and deliver any document in connection therewith, whenever such joinder is necessary or advisable.

(iii) The Modifications shall be completed in a good and workmanlike manner and in compliance in all material respects with all Applicable Laws then in effect and the standards imposed by any insurance policies required to be maintained hereunder or the manufacturer in order to maintain all warranties, and all Modifications must be located solely on the Site.

(iv) All Modifications shall, when completed, be of such a character as to not materially adversely affect the Fair Market Value, utility, remaining economic useful life or residual value of the Leased Property from the Fair Market Value, utility, remaining economic useful life or residual value thereof immediately prior to the making thereof or, in the case of Modifications being made by virtue of a Casualty or Condemnation, immediately prior to the occurrence of such Casualty or Condemnation. If any such Modification has a cost exceeding \$15,000,000 and if requested by the Required Participants, Lessor may obtain a report from the Independent Engineer or, at the option of the Required Participants, engage an appraiser of nationally recognized standing, at Lessee's sole cost and expense, to determine (by appraisal or other methods satisfactory to the Required Participants) the projected Fair Market Value of the Leased Property following completion of the Modifications relating thereto.

(v) Lessee shall have made adequate arrangements for payment of the cost of all Modifications when due so that the Leased Property shall at all times be free of Liens for labor and materials supplied or claimed to have been supplied to the Leased Property, other than Permitted Liens.

(c) Notwithstanding the foregoing, following the Base Term Commencement Date, Lessee, at its sole cost and expense, may make emergency expenditures for Modifications that otherwise comply with the requirements of this Section 10.1, even if such Modifications are not scheduled or reasonably anticipated or the cost thereof exceed the amounts set forth above, if any, provided Lessee has promptly given Lessor notice promptly following the earlier of such expenditure or Modification (which notice shall describe the amount and type of such expenditures, the Modifications made or to be made, and certifying that such Modifications otherwise comply with the requirements of this Section 10.1). The term "EMERGENCY EXPENDITURES" means expenditures necessary to prevent damage or injury to (or loss of) the Leased Property or any portion thereof or to prevent exposing any person or entity to damage or injury or to prevent any other act or omission which would, in the good faith judgment of Lessee expose Lessee, Lessor, Administrative Agent or any of the Participants to an unreasonable or unwarranted risk of loss, damage, or injury or to comply with Applicable Law.

SECTION 10.2. TITLE TO MODIFICATIONS. Title to the following described Modifications shall, without further act, vest in Lessor and shall be deemed to constitute a part of the Leased Property and be subject to this Lease:

(a) any Modifications commenced prior to the Base Term Commencement Date for the Financed Improvements or which are otherwise Funded by the Participants;

(b) Modifications that are in replacement of or in substitution for a portion of any item of Leased Property;

(c) Modifications that are required to be made pursuant to the terms of Section 10.1(a)(i) hereof; or

(d) Modifications that are Nonseverable.

Lessee, at Lessor's request, shall execute and deliver any deeds, bills of sale, assignments or other documents of conveyance reasonably necessary to evidence the vesting of title in and to such Modifications to Lessor.

If such Modifications are not within any of the categories set forth in clauses (a) through (d) of this Section 10.2, then title to such Modifications shall vest in Lessee and such Modifications shall not be deemed to be Modifications which are part of the Leased Property.

All Modifications to which Lessee shall have title may, so long as removal thereof shall not result in the violation of any Applicable Laws, shall not adversely affect the Lessee's ability to comply with its obligations under this Lease or any other Operative Document, and no Event of Default or Default is continuing, be removed at any time by Lessee. Lessee agrees to notify Lessor in writing at least 30 days before it removes any such Modifications which individually or in the aggregate had an original cost exceeding \$5,000,000, and Lessee shall at its expense repair any damage to the Leased Property caused by the removal of such Modifications. Lessor (or the purchaser of the Leased Property) may purchase from Lessee any such Modifications (if not already owned by Lessor) that Lessee intends to remove from the Leased Property prior to the return of the Leased Property to Lessor or sale of the Leased Property, which purchase shall be at the Fair Market Value of such Modifications as determined by the Appraiser at the time of such purchase. Title to any such Modifications shall vest in Lessor (or the purchaser of the applicable Leased Property) if not removed from the Leased Property by Lessee prior to the return of the Leased Property to Lessor or sale of the Leased Property.

ARTICLE XI
COVENANTS WITH RESPECT TO LIENS AND EASEMENTS

SECTION 11.1. COVENANTS WITH RESPECT TO LIENS. (a) During the Term and subject to Section 12.1 hereof, Lessee will not directly or indirectly create, incur, assume or suffer to exist any Lien (other than Permitted Liens) on or with respect to any portion of the Leased Property, Lessor's title thereto, or any interest therein. Lessee, at its own expense, will promptly pay, satisfy and otherwise take such actions as may be necessary to keep the Leased Property free and clear of, and duly to discharge, eliminate or bond in a manner reasonably satisfactory to Lessor and the Administrative Agent, any such Lien (other than Permitted Liens) if the same shall arise at any time.

(b) Nothing contained in this Lease shall be construed as constituting the consent or request of the Lessor, expressed or implied, to or for the performance by any contractor, mechanic, laborer, materialman, supplier or vendor of any labor or services or for the furnishing of any materials for any construction, alteration, addition, repair, restoration or demolition of or to the Leased Property or any part thereof. notice is hereby given that none of the Lessor, Administrative Agent or the Participants is or shall be liable for any labor, services or materials furnished or to be furnished to the Lessee, or to anyone holding the Leased Property or any part thereof through or under the Lessee, and that no mechanic's or other liens for any such labor, services or materials shall attach to or affect the interest of the Lessor, the Administrative Agent or any Participant in and to the Leased Property.

SECTION 11.2. LESSEE'S GRANTS AND RELEASES OF EASEMENTS; LESSOR'S WAIVERS. Following the Base Term Commencement Date and PROVIDED that no Default or Event of Default shall have occurred and be continuing, and subject to the provisions of Articles VII, IX and X and Section 8.2, and without the requirement of any further instrument or action of the Lessor, the Lessor hereby consents in each instance to the following actions by the Lessee in the name and stead of the Lessor and as the true and lawful attorney-in-fact of the Lessor with full power and authority to execute documents on behalf of the Lessor for the following purposes, but at the Lessee's sole cost and expense: (a) the granting of, or entry into agreements in connection with, easements, licenses, rights-of-way, building and use restrictions and covenants and other rights and privileges in the nature of easements or similar interests and burdens reasonably necessary or desirable for the use, repair, maintenance or protection of the Leased Property as herein provided; (b) the release of existing easements or other rights in the nature of easements which are for the benefit of, or burden to, the Leased Property; (c) the execution of amendments to, or waivers or releases of, any easements, licenses or covenants and restrictions affecting the Site; and (d) the exercise of all rights under any redevelopment agreement or document contemplated thereby affecting the Site; provided, however, that in each case (i) such grant, release, dedication, transfer, amendment, agreement or other action does not materially impair the value, utility, residual value or remaining useful life of the Leased Property, (ii) such grant, release, dedication, transfer, amendment, agreement or other action in the Lessee's judgment is reasonably necessary in connection with the use, maintenance, alteration or improvement of the Leased Property, (iii) such grant, release, dedication, transfer, amendment, agreement or other action will not cause the Leased Property or any portion thereof to fail to comply with the provisions of this Lease or any other Operative Documents and in all material respects, Applicable Laws (including, without limitation, all applicable zoning, planning, building and subdivision ordinances, all applicable restrictive covenants and all applicable architectural approval requirements); (iv) all governmental consents or approvals required prior to such grant, release, dedication, transfer, amendment, agreement or other action have been obtained, and all filings required prior to such action have been made; (v) the Lessee shall remain obligated under this Lease and under any instrument executed by the Lessee consenting to the assignment of the Lessor's interest in this Lease as security for indebtedness, in each such case in accordance with their terms, as though such grant, release, dedication, transfer, amendment, agreement or other action had not been effected; and (vi) the Lessee shall timely pay and perform any obligations of the Lessor under such grant, release, dedication, transfer, amendment, agreement or other action. Without limiting the effectiveness of the foregoing, PROVIDED, that no Default or Event of Default

shall have occurred and be continuing, the Lessor shall, upon the request of the Lessee, and at the Lessee's sole cost and expense, execute and deliver any instruments necessary or appropriate to confirm any such grant, release, dedication, transfer, amendment, agreement or other action to any Person permitted under this Section.

ARTICLE XII
PERMITTED CONTESTS

SECTION 12.1. PERMITTED CONTESTS IN RESPECT OF LIENS AND APPLICABLE LAWS. If, to the extent and for so long as a test, challenge, appeal or proceeding for review of a Lien or any Applicable Laws relating to the Leased Property or any part thereof or the obligation to comply therewith shall be prosecuted diligently and in good faith in appropriate proceedings by the Lessee, during the Term, Lessee shall not be required to pay or discharge such Lien or comply with such Applicable Laws but only if and so long as any such test, challenge, appeal, proceeding, waiver, extension, forbearance or noncompliance shall not, in the reasonable opinion of the Lessor and the Administrative Agent involve (A) any risk of criminal liability being imposed on the Lessor, any Agent, any Participant or any item of Leased Property or (B) any material risk of (1) the foreclosure, forfeiture or loss of the Leased Property, or any material part thereof, (2) the nonpayment of Rent, (3) any sale of, or the creation of any Lien (other than a Permitted Lien) on, any material part of the Leased Property (PROVIDED, HOWEVER, nothing herein shall be deemed to reduce or diminish Lessee's obligations at Section 11.1), (4) civil or criminal liability being imposed on the Lessor, the Administrative Agent, any Participant or any material part of the Leased Property for which the Lessee is not obligated to indemnify such parties under the Operative Documents, or (5) enjoinder of, or interference with, the use, possession or disposition of the Leased Property in any material respect.

The Lessor shall, at the written request of the Lessee and at the Lessee's sole cost and expense, execute and deliver to the Lessee such authorizations and other documents as may be reasonably required in such test, challenge, appeal or proceeding. The Lessor will not be required to join in any proceedings pursuant to this Section 12.1 unless a provision of any Applicable Laws requires that such proceedings be brought by or in the name of the Lessor; and in that event the Lessor will join in the proceedings or permit them or any part thereof to be brought in its name if and so long as (i) the Lessee has not elected the Sale Option and (ii) the Lessee agrees in writing to pay, and pays, all related expenses and agrees in writing to indemnify the Lessor, the Administrative Agent and the Participants, in form and substance reasonably satisfactory to each of the respective Indemnitees, in respect of any claim relating thereto.

ARTICLE XIII
INSURANCE

SECTION 13.1. REQUIRED COVERAGES. To the extent required below, during the Term, Lessee will provide or cause to be provided insurance with respect to the Leased Property of a character consistent with Lessee's insurance programs for similar equipment owned or leased by Lessee or its Affiliates and in keeping with Prudent Industry Practice; PROVIDED, that in any event Lessee will maintain at all times:

(a) GENERAL LIABILITY INSURANCE. Combined single limit insurance against claims for third-party bodily injury, including death, and third-party property damage occurring as a result of the ownership, use, maintenance or operation of the Leased Property in an amount at least equal to \$50,000,000 per claim made. Such coverage may be subject to deductibles or self-insured retentions up to an amount that is consistent with Lessee's insurance programs for similar property owned or leased by Lessee or its Affiliates and in keeping with Prudent Industry Practice.

(b) PROPERTY INSURANCE. Insurance against loss of or damage to the Leased Property or any portion thereof by reason of any peril in an amount consistent with Lessee's insurance program for similar equipment owned or leased by Lessee, in keeping with Prudent Industry Practice (subject to such deductibles and/or self-insurance in such minimum amounts as is consistent with Lessee's insurance program for similar property owned or leased by Lessee or its Affiliates, in keeping with Prudent Industry Practice; PROVIDED, HOWEVER, that at no time shall the amount of such coverage be less than the replacement cost of the Leased Property.

(c) OTHER INSURANCE. Lessee shall at all times maintain, or cause to be maintained, such other insurance as is required by Applicable Law governing the Lessee or the Leased Property. Additionally, Lessee shall provide such other coverages as Lessee, Lessor and Administrative Agent may mutually agree.

SECTION 13.2. INSURANCE COVERAGE. The insurance coverage required in Section 13.1 shall be written by reputable insurance companies that are financially sound and solvent and otherwise reasonably appropriate considering the amount and type of insurance being provided by such companies. Any insurance company selected by Lessee shall be rated in A.M. Best's Insurance Guide or any successor thereto (or if there be none, an organization having a similar national reputation) and shall have a general policyholder rating of "A" (or comparable rating for a rating by an organization other than A.M. Best) and a financial rating of at least "X" (or comparable rating for a rating by an organization other than A.M. Best) or be otherwise acceptable to the Required Participants. In the case of liability insurance maintained by Lessee, it shall name Lessor (both in its individual capacity and as Lessor), the Administrative Agent and each of the Participants, as additional insureds and, in the case of property insurance maintained by Lessee, it shall name Administrative Agent, as mortgagee and sole loss payee. Each policy referred to in Section 13.1 shall provide that: (i) it will not be canceled, materially modified or its limits reduced, or allowed to lapse without renewal, except after not less than 30 days' prior written notice to Lessor and Administrative Agent; (ii) the interests of Lessor, the Administrative Agent and any Participant shall not be invalidated by any act or negligence of or breach of warranty or representation by Lessee or any other Person having an interest in the Leased Property; (iii) such insurance is primary with respect to any other insurance carried by or available to Lessor, the Administrative Agent or any Participant; (iv) the insurer shall waive any right of subrogation, setoff, counterclaim, or other deduction, whether by attachment or otherwise, against Lessor; and (v) such policy shall contain a cross-liability clause providing for coverage of Lessor, the Administrative Agent and each Participant, as if separate policies had been issued to each of them. Lessee will notify Lessor and Administrative Agent promptly of any policy cancellation, reduction in policy limits, modification or amendment.

SECTION 13.3. DELIVERY OF INSURANCE CERTIFICATES. On the Base Term Commencement Date, Lessee shall deliver to Administrative Agent certificates of insurance satisfactory to Administrative Agent evidencing the existence of all insurance required to be maintained hereunder and setting forth the respective coverages, limits of liability, carrier, policy number and period of coverage. Thereafter, upon written request by Lessor following an Event of Default, Lessee shall deliver to Administrative Agent certificates of insurance evidencing that all insurance required by Sections 13.1 and 13.2 to be maintained by Lessee is in effect.

SECTION 13.4. INSURANCE BY LESSOR, ADMINISTRATIVE AGENT OR ANY PARTICIPANT. Each of Lessor, the Administrative Agent or any Participant may at its own expense carry insurance with respect to its interest in the Leased Property, and any insurance payments received from policies maintained by Lessor, the Administrative Agent or any Participant shall be retained by Lessor, the Administrative Agent or such Participant, as the case may be, without reducing or otherwise affecting Lessee's obligations hereunder.

ARTICLE XIV CASUALTY AND CONDEMNATION

SECTION 14.1. CASUALTY AND CONDEMNATION. (a) Subject to the provisions of this Article XIV, if all or any portion of the Leased Property suffers a Casualty (other than a Significant Casualty as to which a Termination Notice has been given), Lessee shall control the negotiations with the relevant insurer unless an Event of Default exists and any insurance proceeds payable with respect to such Casualty shall be paid directly to the Lessee, or if received by the Lessor, the Administrative Agent or the Lenders, shall be paid over to the Lessee and shall be used by Lessee solely for the reconstruction, restoration and repair of such Leased Property, and if the use of, access to, occupancy of or title to the Leased Property or any part thereof is the subject of a Condemnation (other than a Significant Condemnation as to which a Termination Notice has been given), then any award or compensation relating thereto shall be paid to the Lessee and shall be used by Lessee solely for the restoration of the Leased Property. Notwithstanding the foregoing, if any Event of Default, or Default in respect of payment obligations of the Lessee, shall have occurred and be continuing, such award, compensation or insurance proceeds shall be paid directly to the Administrative Agent or, if received by the Lessee, shall be held in trust for the Participants and shall be paid over by the Lessee to the Administrative Agent. All amounts held by the Lessor or the Administrative Agent on account of any award, compensation or insurance proceeds either paid directly to the Lessor or the Administrative Agent or turned over to the Lessor or the Administrative Agent, in each case after the occurrence and during the continuance of an Event of Default shall at the option of the Lessor (at the direction of the Required Participants) either be (A) paid to the Lessee for the repair of damage caused by such Casualty or Condemnation in accordance with this clause (a), or (B) applied to the Lease Balance and any other amounts owed by Lessee under the Operative Documents in accordance with Article XVI.

(b) In the event any part of the Leased Property becomes subject to condemnation or requisition proceedings during the Term, Lessee shall give notice thereof to Lessor promptly after Lessee has knowledge thereof and, to the extent permitted by Applicable Laws, Lessee shall control the negotiations with the relevant Governmental Authority unless an Event of Default

exists; PROVIDED, that in any event, Lessor may participate at Lessor's expense (or if an Event of Default exists Lessor may control or participate at Lessee's expense) in such negotiations; and PROVIDED in all cases, that no settlement will be made without Lessor's prior written consent (which consent shall not be unreasonably withheld or delayed). Lessee shall give to Lessor such information, and copies of such documents, which relate to such proceedings, or which relate to the settlement of amounts due under insurance policies required by Article XIII, and are in the possession of Lessee, as are reasonably requested by Lessor. If the proceedings relate to a Significant Condemnation, Lessee shall act diligently in connection therewith. Nothing contained in this Section 14.1(b) shall diminish Lessor's rights with respect to condemnation awards and property insurance proceeds under Articles XIII or XIV.

(c) In no event shall a Casualty or Condemnation affect the Lessee's obligations to pay Rent pursuant to Section 3.1 or to perform its obligations and pay any amounts due on the Expiration Date or pursuant to Articles XVIII and XXI.

(d) If, pursuant to this Article XIV, this Lease shall continue in full force and effect following a Casualty or Condemnation, the Lessee shall, at its sole cost and expense (and, without limitation, if any award, compensation or insurance payment is not sufficient to restore the Leased Property in accordance with this clause (d), Lessee shall pay the shortfall), promptly and diligently repair any damage to the Leased Property caused by such Casualty or Condemnation in conformity with the requirements of Sections 9.1 and 10.1 so as to restore the Leased Property to at least the same condition and value as existed immediately prior to such Casualty or Condemnation. In such event, title to the Leased Property shall remain with the Lessor subject to the terms of this Lease. Upon completion of such restoration, the Lessee shall furnish to Lessor a Responsible Officer's Certificate confirming that such restoration has been completed pursuant to this Lease.

SECTION 14.2. ENVIRONMENTAL MATTERS. Subject to Section 12.1 hereof, at Lessee's sole cost and expense, Lessee shall in a reasonably prompt and diligent manner undertake any response, clean up, remedial or other action to remove, clean up or remediate any Environmental Violation to the extent required by Applicable Laws with respect to the Leased Property.

SECTION 14.3. NOTICE OF ENVIRONMENTAL MATTERS. Lessee shall promptly provide to Lessor written notice of any pending or threatened claim, action or proceeding of which it has received written notice involving any Environmental Violation or any Release on, at, under or from Leased Property, which violation or Release could reasonably be expected to require in excess of \$5,000,000 in remediation costs, or which could result in the imposition of criminal penalties upon Lessor, any Agent or any Participant (any such claim, action or proceeding, a "MATERIAL ENVIRONMENTAL MATTER"). All such notices shall describe in reasonable detail the nature of the Material Environmental Matter and Lessee's proposed response thereto. In addition, Lessee shall provide to Lessor, within ten (10) Business Days of receipt, copies of all material written communications with any Governmental Authority relating to any such Material Environmental Matter. Lessee shall also promptly provide such detailed reports of any such Material Environmental Matter as may reasonably be requested by Lessor or the Administrative Agent. Upon completion of remedial action of such Material Environmental Matter by Lessee, Lessee shall cause to be prepared by an environmental consultant reasonably acceptable to Lessor and

Administrative Agent a report describing the Material Environmental Matter and the actions taken by Lessee (or its agents) in response to such Material Environmental Matter, and a statement by the consultant that the Material Environmental Matter has been remedied in compliance in all material respects with applicable Environmental Law. Each such Material Environmental Matter shall be remedied prior to the Expiration Date unless the Leased Property has been or will be purchased by Lessee in accordance with Article XV or Article XVIII. Nothing in this Article XIV shall reduce or limit Lessee's obligations elsewhere in this Lease or under the Participation Agreement.

ARTICLE XV
TERMINATION OF LEASE

SECTION 15.1. TERMINATION UPON CERTAIN EVENTS. (a) If an Event of Loss or Significant Environmental Event occurs during the Term with respect to the Leased Property, then Lessee, upon Lessee making a reasonable judgment that such Event or Loss or Significant Environmental Event has occurred, may elect to terminate the Lease by giving written notice (a "TERMINATION NOTICE") to the Lessor, but in any event no later than one hundred twenty (120) days following the occurrence of such Event of Loss or Significant Environmental Event that, as a consequence of such Event of Loss or Significant Environmental Event, the Lease is to be terminated on the Payment Date specified in Section 15.1(b). If Lessee fails to elect to terminate the Lease as provided in this Section 15.1(a), Lessee shall be deemed to have elected to restore, rebuild or remediate the Leased Property pursuant to Section 14.1(d) or Section 14.3, as applicable and Lessee shall undertake and diligently pursue such restoration, rebuilding or remediation which in all cases shall be completed prior to the Expiration Date.

(b) Following Lessee's delivery of the Termination Notice, the Lessee shall be obligated to purchase the Lessor's interest in all, but not less than all, of the Leased Property on or prior to the next occurring Payment Date (but in no event any later than thirty (30) days from the date the Lessee delivers the applicable Termination Notice) by paying the Lessor an amount equal to the Purchase Amount.

SECTION 15.2. TERMINATION PROCEDURES. On the date of the payment by the Lessee of the Purchase Amount in accordance with Section 15.1(b) (such date, the "TERMINATION DATE"), this Lease shall terminate and, concurrent with the Lessor's receipt of such payment:

(i) the Lessor and Lessee shall comply with the provisions of Sections 21.1(i) through 21.1(iii) and Section 21.1(v); and

(ii) Lessor shall convey to the Lessee any net proceeds (that is, after deducting all reasonable costs and expenses incurred by the Lessor, Administrative Agent or any Participant(s) incident to collecting any such proceeds of Casualty or Condemnation, including, without limitation, reasonable fees and expenses for counsel) with respect to the Casualty or Condemnation giving rise to the termination of this Lease theretofore received by the Lessor or, at the request of the Lessee, to the extent actually received and if acceptable to Lessor in its sole judgment, Lessor shall apply such amounts against sums due hereunder.

ARTICLE XVI
EVENTS OF DEFAULT

SECTION 16.1. EVENTS OF DEFAULT. The occurrence of any one or more of the following events (whether such event shall be voluntary or involuntary or come about or be effected by operation of law or pursuant to or in compliance with any judgment, decree or order of any court or any order, rule or regulation of any administrative or governmental body) shall constitute a "Lease Event of Default":

(a) the occurrence of a Payment Default; or

(b) the Lessee shall fail to make payment of any Supplemental Rent (other than Supplemental Rent referred to in clause (a) of this Section 16.1) due and payable within five (5) Business Days after such amounts are due and payable; or

(c) the Lessee shall fail to maintain insurance as required by Article XIII of this Lease; or

(d) The Lessee shall fail to observe or perform any term, covenant or condition of the Lessee under this Lease or any other Operative Document (other than those described in any other clause of this Section 16.1) and such failure shall remain uncured for a period of thirty (30) days after the earlier of (i) receipt by a Responsible Officer of the Lessee of written notice thereof and (ii) notification by Lessor to Lessee of such event; PROVIDED, HOWEVER, that if such failure is capable of cure but cannot be cured by payment of money or cannot be cured by diligent efforts within such thirty (30)-day period, but such diligent efforts shall be properly commenced within such thirty (30)-day cure period and the Lessee is diligently pursuing, and shall continue to pursue diligently, remedy of such failure, the cure period shall be extended for an additional 90 days, but in no event beyond the Expiration Date; or

(e) Any representation or warranty made or deemed made by or on behalf of Lessee (or any of its officers) in connection with any Operative Document to which Lessee is a party, or any certificate delivered in connection with any Operative Document, shall prove to have been incorrect in any material respect when made and Lessee shall fail to cure such incorrect representation or warranty for a period of thirty (30) days after a Responsible Officer of the Lessee has knowledge of such incorrect representation or warranty (in which case Lessee shall give prompt written notice thereof to the Lessor) or the Lessor gives written notice thereof to Lessee; or

(f) Lessee shall (i) fail to perform any term, covenant or agreement contained in Section 9.1(a), (e), (i) or (j) of the Participation Agreement or (ii) fail to comply with any of its obligations set forth in paragraph 14 of the Syndication Letter; or

(g) (i) (A) Failure of Lessee to pay any amount when due under any agreement under which indebtedness aggregating in excess of \$50,000,000 has been issued ("MATERIAL INDEBTEDNESS"); or (B) the default by Lessee in the performance of any

term, provision or condition contained in any agreement under which any such Material Indebtedness was created or is governed, or any other event shall occur or condition exist, the effect of which default or event is to cause such Material Indebtedness to become due prior to its stated maturity; PROVIDED, HOWEVER, that no Event of Default shall be deemed to have occurred under this Section 16.1(g)(i)(B) if the Participants and their Affiliates, either collectively or individually, have the ability to control (by vote or otherwise) whether such Material Indebtedness will become due prior to its stated maturity; or (C) Lessee shall not pay, or shall admit in writing its inability to pay, its debts generally as they become due; or

(ii) Lessee shall fail within 30 days to pay, bond or otherwise discharge any judgment or order for the payment of money in excess of \$50,000,000 (either singly or in the aggregate with other such judgments), which is not stayed on appeal or otherwise being appropriately contested in good faith; or

(iii) Any ERISA Plan Termination Event shall have occurred with respect to a Plan which could reasonably be expected to result in a Material Change, and, 30 days after notice thereof shall have been given to the Lessee by the Administrative Agent or any Participant, such ERISA Plan Termination Event shall still exist; or

(h) Any authorization or approval or other action by any governmental authority or regulatory body required for the execution, delivery or performance of the Participation Agreement or any other Operative Document by Lessee shall fail to have been obtained or be terminated, revoked or rescinded or shall otherwise no longer be in full force and effect and such occurrence shall affect the enforceability of the Operative Documents against the Lessee adversely; or

(i) The occurrence of an Insolvency Event; or

(j) Lessee shall fail to sell the Leased Property in accordance with and satisfy each of the terms, covenants, conditions and agreements set forth at Articles XX and XXI in connection with and following its exercise of the Sale Option, including each of Lessee's obligations at Sections 20.1 and 21.1; or

(k) Any Operative Document or the security interest and lien granted under this Lease (except in accordance with its terms), in whole or in part, terminates, ceases to be effective or ceases to be the legal, valid and binding enforceable obligation of Lessee on account of, or as a result of, directly or indirectly, any act or omission of Lessee, or Lessee, directly or indirectly, contests in any manner in any court the effectiveness, validity, binding nature or enforceability thereof; or the security interest and lien securing Lessee's obligations under the Operative Documents, in whole or in part, ceases to be a perfected first priority security interest and lien (subject only to Permitted Liens).

SECTION 16.2. REMEDIES. Upon the occurrence of any Event of Default and at any time thereafter, the Lessor may, so long as such Event of Default is continuing, do one or more of the following (as modified and supplemented by the remedies set forth in the Memorandum of

Lease) as the Lessor in its sole discretion shall determine, without limiting any other right or remedy the Lessor may have on account of such Event of Default, but subject to the rights of the Lessee to purchase the Leased Property pursuant to the terms and within the time periods as set forth in Section 18.1:

(a) The Lessor may, by notice to the Lessee, rescind or terminate this Lease as to any or all of the Leased Property as of the date specified in such notice; however, no reletting, or taking of possession of the Leased Property (or any portion thereof) by the Lessor will be construed as an election on the Lessor's part to terminate this Lease unless a written notice of such intention is given to the Lessee, notwithstanding any reletting, or taking of possession, the Lessor may at any time thereafter elect to terminate this Lease for a continuing Event of Default and no act or thing done by the Lessor or any of its agents, representatives or employees and no agreement accepting a surrender of the Leased Property shall be valid unless the same be made in writing and executed by the Lessor;

(b) The Lessor may demand that the Lessee, and the Lessee shall upon the written demand of the Lessor, return the Leased Property promptly to the Lessor in the manner and condition required by, and otherwise in accordance with all of the provisions of the Participation Agreement and Article IX and Sections 8.2 and 14.2 hereof, and Lessee shall comply with the requirements at Section 15.2 to the extent requested by Lessor, as if the Leased Property were being returned at the end of the Term, and the Lessor shall not be liable for the reimbursement of the Lessee for any costs and expenses incurred by the Lessee in connection therewith and without prejudice to any other remedy which the Lessor may have for possession of the Leased Property, and to the extent and in the manner permitted by Applicable Laws, enter upon the Site and take immediate possession of (to the exclusion of the Lessee) the Leased Property or any part thereof and expel or remove the Lessee, by summary proceedings or otherwise, all without liability to the Lessee for or by reason of such entry or taking of possession (PROVIDED, HOWEVER, Lessor shall remain liable for actual damages caused by its gross negligence or willful misconduct), whether for the restoration of damage to property caused by such taking or otherwise and, in addition to the Lessor's other damages, the Lessee shall be responsible for all costs and expenses (which costs and expenses shall be reasonable if within the control of Lessor) incurred by the Lessor and the Participants in connection with any reletting, including, without limitation, reasonable brokers' fees and all costs of any alterations or repairs made by the Lessor;

(c) The Lessor may sell all or any part of the Leased Property at public or private sale, as the Lessor may determine, free and clear of any rights of the Lessee with respect thereto (except to the extent required below if the Lessor shall elect to exercise its rights thereunder and except that the proceeds of sale shall be accounted for as provided in Section 5.3(g) of the Participation Agreement as hereinafter set forth) in which event the Lessee's obligation to pay Basic Rent hereunder for periods commencing after the date of such sale shall be terminated;

(d) The Lessor may, at its option, elect not to terminate this Lease with respect to the Leased Property and continue to collect all Basic Rent, Supplemental Rent and all other amounts due the Lessor (together with all costs of collection) and enforce the Lessee's obligations under this Lease as and when the same become due, or are to be performed, and at the option of the Lessor, upon any abandonment of the Leased Property by the Lessee, the Lessor may, in its sole and absolute discretion, elect not to terminate this Lease and may make the necessary repairs (and the Lessee shall pay the reasonable costs of such repairs) in order to relet the Leased Property, and relet the Leased Property or any part thereof (in place, if so elected by Lessor) for such term or terms (which may be for a term extending beyond the Term of this Lease) and at such rental or rentals and upon such other terms and conditions as the Lessor in its reasonable discretion may deem advisable; and upon each such reletting all rentals actually received by the Lessor from such reletting shall be applied to the Lessee's obligations hereunder and the other Operative Documents in such order, proportion and priority as the Lessor may elect in the Lessor's sole and absolute discretion. If such rentals received from such reletting during any period are less than the Rent with respect to the Leased Property to be paid during that period by the Lessee hereunder, the Lessee shall pay any deficiency, as calculated by the Lessor, to the Lessor on the next Payment Date;

(e) The Lessor may demand, by written notice to the Lessee, that the Lessee pay to the Lessor within twenty (20) days after receipt of such notice an amount equal to the Permitted Lease Balance, and if the Permitted Lease Balance is equal to the Lease Balance, the Lessor shall convey the Leased Property to the Lessee in accordance with Article XXI. The Lessor acknowledges and agrees that upon the declaration of a Lease Event of Default, to the maximum extent permitted by Applicable Law, and subject to Lessor's obligations under the final paragraph of this Section 16.2, the Lessee waives any right to contest that the payment of the amount described in the preceding sentence constitutes the correct liquidated recourse sum due upon acceleration of this instrument;

(f) The Lessor may exercise any other right or remedy that may be available to it under Applicable Laws, or proceed by appropriate court action (legal or equitable) to enforce the terms hereof or to recover damages for the breach hereof. Separate suits may be brought to collect any such damages for any period(s), and such suits shall not in any manner prejudice the Lessor's right to collect any such damages for any subsequent period(s), or the Lessor may defer any such suit until after the expiration of the Term, in which event such suit shall be deemed not to have accrued until the expiration of the Term;

(g) The Lessor may retain and apply against the Lease Balance, in accordance with Section 5.3 of the Participation Agreement, all sums which the Lessor would, absent such Event of Default, be required to pay to, or turn over to, the Lessee pursuant to the terms of this Lease;

(h) If an Event of Default shall have occurred and be continuing, the Lessor, as a matter of right and with notice to the Lessee, shall have the right to apply to any court having jurisdiction to appoint a receiver or receivers of the Leased Property, and the

Lessee hereby irrevocably consents to any such appointment. Any such receiver(s) shall have all of the usual powers and duties of receivers in like or similar cases and all of the powers and duties of the Lessor in case of entry onto the Site, and shall continue as such and exercise such powers until the date of confirmation of the sale of the Leased Property unless such receivership is sooner terminated; or

(i) Upon the occurrence of the Lease Event of Default described in Section 16.1(i), whether or not another Lease Event of Default described in one or more other clauses of Section 16.1 shall have been or thereafter is declared, this Lease shall terminate immediately without notice and Lessee shall immediately pay to Agent, on behalf of Lessor, as and for liquidated damages and without limitation on any other remedies provided for herein, an amount equal to the Permitted Lease Balance.

To the maximum extent permitted by Applicable Law, the Lessee hereby waives (x) the benefit of any appraisal, valuation, stay, extension, reinstatement and redemption laws now or hereafter in force and all rights of marshaling in the event of any sale of the Leased Property or any interest therein and (y) any rights now or in the future conferred by statute or otherwise which may require the Lessor to sell, lease or otherwise use the Leased Property in mitigation of the Lessor's damages or which may otherwise limit or modify any remedy of damages.

The Lessor shall be entitled to enforce payment and performance of the obligations secured hereby and to exercise all rights and powers under this instrument or under any of the other Operative Documents or other agreement or any laws now or hereafter in force, notwithstanding some or all of the obligations secured hereby may now or hereafter be otherwise secured, whether by mortgage, security agreement, pledge, lien, assignment or otherwise. Neither the acceptance of this instrument nor its enforcement, shall prejudice or in any manner affect the Lessor's right to realize upon or enforce any other security now or hereafter held by the Lessor, it being agreed that the Lessor shall be entitled to enforce this instrument and any other security now or hereafter held by the Lessor in such order and manner as the Lessor may determine in its absolute discretion. No remedy herein conferred upon or reserved to the Lessor is intended to be exclusive of any other remedy herein or by law provided or permitted, but each shall be cumulative and shall be in addition to every other remedy given hereunder or now or hereafter existing at law or in equity or by statute. Every power or remedy given by any of the Operative Documents to the Lessor or to which it may otherwise be entitled, may be exercised, concurrently or independently, from time to time and as often as may be deemed expedient by the Lessor. Without limiting the foregoing, but subject to the limitation at Section 16.5, if applicable, each of the powers, rights and remedies as set forth or otherwise permitted pursuant to this Article XVI are independent of the provisions of Article XIII of the Participation Agreement.

The proceeds derived from any sale of Leased Property and other amounts recovered pursuant to the foregoing remedies after an Event of Default shall be distributed pursuant to Section 5.3(g) of the Participation Agreement. The amount realized by the Lessor upon a sale of a Leased Property shall be net of Lessor's sale expenses and other expenses reasonably and customarily incurred by the Lessor in connection with the Lessor holding and owning such Leased Property until such time as the Leased Property is sold. Notwithstanding anything herein

to the contrary, and except for Lessee's obligation to pay Nonconformance Amounts, there shall not be any personal recourse against the Lessee (and Lessor shall have recourse only against the Leased Property) pursuant to this Section 16.2 for any amount in excess of the Permitted Lease Balance.

SECTION 16.3. WAIVER OF CERTAIN RIGHTS. If this Lease shall be terminated pursuant to Section 16.2, the Lessee waives, to the fullest extent permitted by law, (a) any notice of legal proceedings to obtain possession; (b) any right of redemption or repossession; (c) the benefit of any laws now or hereafter in force exempting property from liability for rent or for debt or limiting the Lessor with respect to the election of remedies; and (d) any other rights which might otherwise limit or modify any of the Lessor's rights or remedies under this Article XVI.

SECTION 16.4. GRANT OF SECURITY INTEREST. The Lessee hereby grants, transfers and pledges a lien and a security interest to Lessor, for the benefit of the Participants, in all of its right, title and interest in the Leased Property and the other Collateral and hereby assigns to Lessor all of its right, title and interest in and to the Collateral, in each case, to secure payment and performance of its Obligations hereunder and under the other Operative Documents. This Lease shall constitute a security agreement within the meaning of the Uniform Commercial Code of the state where the Leased Property and other Collateral is located ("UCC"), and if an Event of Default has occurred and is continuing, (i) Lessor shall, in addition to all other rights available at law or equity, have all of the rights provided to a secured party under Article 9 of the UCC and (ii) Lessor shall have the power and authority, to the extent provided by law, after proper notice and lapse of such time as may be required by law, to sell the Leased Property and the other Collateral (or any portion thereof), either as a whole, or in separate lots or parcels or items and in such order as Lessor may elect all as provided for herein. The proceeds derived from the exercise of the foregoing rights shall be applied as set forth in the last paragraph of Section 16.2.

SECTION 16.5. DETERMINATIONS OF CERTAIN EVENTS OF DEFAULT. Lessor acknowledges that, in making a determination that an Event of Default has occurred under Section 16.1(d), (e), (f), (g), (h) or (j), to the extent Lessor exercises discretion in making such determination, it shall exercise such discretion in a commercially reasonable manner.

SECTION 16.6. LESSOR SALE. If Lessor has neither sold nor foreclosed upon the Leased Property within two (2) years after receipt of the Permitted Lease Balance, including pursuant to Section 16.2(i), Lessor will appoint a qualified independent sales agent to sell the Leased Property pursuant to the first bonafide offer received from creditworthy offeror and for an all cash purchase price at the then fair market value of the Leased Property to the extent the conditions therefor are satisfied. Any proceeds resulting from the operation of this Section 16.6 net of the costs and expenses of such sale and costs incurred to maintain the leased property will be applied in accordance with Section 5.3(g) of the Participation Agreement. Notwithstanding the foregoing in no event shall Lessor have any liability to Lessee for failure to sell the Leased Property pursuant to the foregoing criteria in this Section 16.6 unless such failure is due to the gross negligence or willful misconduct of the Lessor.

ARTICLE XVII
LESSOR'S RIGHT TO CURE

SECTION 17.1. THE LESSOR'S RIGHT TO CURE THE LESSEE'S DEFAULTS. The Lessor, without waiving or releasing any obligation or Event of Default, may (but shall be under no obligation to), upon five (5) Business Days' prior notice to the Lessee, remedy any Event of Default for the account and at the sole cost and expense of the Lessee, including the failure by the Lessee to maintain the insurance required by Article XIII, and may, to the fullest extent permitted by law, and notwithstanding any right of quiet enjoyment in favor of the Lessee, enter upon the Leased Property and the Site, for such purpose and take all such action thereon as may be reasonably necessary or appropriate therefor. No such entry shall be deemed an eviction of Lessee. All reasonable out-of-pocket costs and expenses so incurred (including fees and expenses of counsel), together with interest thereon at the Overdue Rate from the date on which such sums or expenses are paid by the Lessor, shall be paid by the Lessee to the Lessor on demand as Supplemental Rent.

ARTICLE XVIII
PURCHASE PROVISIONS

SECTION 18.1. EARLY TERMINATION OPTION. Subject to the conditions contained herein, on (a) any Payment Date during the Term provided Lessee has not elected the Sale Option or (b) on any Business Day during the occurrence of an Event of Default of the types described in clause (ii) of the next sentence, Lessee may, at its option, purchase all, but not less than all, of the Leased Property (the "EARLY TERMINATION OPTION") at a price equal to the Purchase Amount. Lessee's right to purchase all of the Leased Property pursuant to this Section 18.1 shall terminate automatically and without notice upon (i) the occurrence of an Event of Default arising as a result of an Insolvency Event, or (ii) upon the occurrence of any other Event of Default, unless in the case of an Event of Default described in this clause (ii) Lessee delivers a written notice of its election to exercise this option to purchase not less than three (3) days prior to the date of the purchase and consummates the purchase within ten (10) Business Days following (x) delivery of a notice of an Event of Default by Lessee pursuant to Section 9.1(d)(i) of the Participation Agreement, or (y) Lessee's receipt of a written Purchase Acceleration Notice. "Purchase Acceleration Notice" shall mean a notice from Lessor or Administrative Agent to Lessee that an Event of Default has occurred. Lessee acknowledges that the Purchase Acceleration Notice shall apply solely to this Section 18.1 and will not affect the validity of any Event of Default or the Lessor's remedies at Section 16.2. In order to exercise its option to purchase the Leased Property pursuant to this Section 18.1 and except as provided for in the clause (ii) of the second sentence of this Section 18.1, Lessee shall give to Lessor not less than thirty (30) days' prior written notice of such election to exercise, which election shall be irrevocable when made. If the Lessee exercises its option pursuant to this Section 18.1 then, upon the Lessor's receipt of all amounts due in connection therewith, the Lessor shall transfer to the Lessee all of the Lessor's right, title and interest in and to the Leased Property in accordance with the procedures set forth in Section 21.1, such transfer to be effective as of the date specified in the Purchase Notice. The Lessor agrees that it shall cooperate with the Lessee in effecting any transfer to a designee of the Lessee pursuant to this Section 18.1.

ARTICLE XIX
END OF TERM OPTIONS

SECTION 19.1. END OF TERM OPTIONS. Before the Expiration Date, Lessee shall, by delivery of written notice to Lessor and Administrative Agent (given in accordance with clause (a) or (b) below), exercise the option provided in paragraph (a)(i) or (a)(ii) or the option provided in paragraph (b):

(a) At least 180 days before the Expiration Date of the Term, Lessee shall, by delivery of written notice to Lessor and the Administrative Agent, exercise one of the following two options:

(i) Commit to renew this Lease with respect to the Leased Property for an additional Lease Renewal Term of one to four years (the "RENEWAL OPTION") on the terms and conditions set forth herein and in the other Operative Documents; PROVIDED, HOWEVER, that such Renewal Option shall be available at the end of the Base Term (or the Base Term as previously so renewed) only if the conditions to the Extension Option set forth in Section 4.7 of the Participation Agreement are satisfied; and PROVIDED, FURTHER, that the Renewal Option shall not be exercisable for a total of more than two (2) Lease Renewal Terms; or

(ii) COMMIT TO PURCHASE FOR CASH FOR THE PURCHASE AMOUNT ALL, BUT NOT LESS THAN ALL, of the Leased Property on the last day of the Term (the "PURCHASE OPTION"); and if Lessee shall have elected to purchase the Leased Property, Lessor shall, upon the payment to Lessor of the Purchase Amount then due and payable by Lessee under the Operative Documents, transfer all of Lessor's right, title and interest in and to the Leased Property pursuant to Section 21.1; or

(b) At least 270 days before the Expiration Date of the Term, Lessee shall, by delivery of written notice to Lessor and the Administrative Agent, commit to sell on behalf of Lessor for cash to a single purchaser not in any way affiliated with Lessee or any of its Affiliates all, but not less than all, of the Leased Property on the last day of the Term (the "SALE OPTION"). Lessee's right to sell the Leased Property pursuant to the Sale Option shall be conditioned upon and subject to the fulfillment by Lessee of each of the terms and conditions set forth in Article XX. In addition, all subleases with respect to the Leased Property shall have been terminated prior to Lessor's receipt of Lessee's election of the Sale Option. Lessee shall not enter into any additional subleases or renew any subleases with respect to the Leased Property following Lessee's election of the Sale Option. Following Lessee's election of the Sale Option, Lessee shall not remove any Modifications or commence any voluntary Modifications under Section 10.1(a)(ii) without the consent of the Required Participants.

SECTION 19.2. ELECTION OF OPTIONS. Unless Lessee shall have (a) affirmatively elected the Sale Option within the time period provided for in Section 19.1(b) and (b) satisfied each of the requirements in Articles XX and XXI, Lessee shall be deemed to have elected the Renewal Option. To the extent that the Renewal Option is not available for any reason (including because

of the Participants' refusal to consent to an Extension Option Request), unless Lessee shall have (a) affirmatively elected the Sale Option within the time period provided for in Section 19.1(b) and (b) satisfied each of the requirements in clause (ii) of Section 20.1(d), Lessee shall be deemed to have elected the Purchase Option. In addition, the Sale Option shall automatically be revoked if there exists a Default, Event of Default, Significant Environmental Event, Significant Casualty or Significant Condemnation at any time after the Sale Option is properly elected or Lessee fails to comply with each of the other terms and conditions set forth at Articles XX and XXI and Lessee shall be deemed to have elected the Purchase Option. Lessee may not elect the Sale Option if there exists on the date the election is made a Default, an Event of Default, Significant Environmental Event, Significant Casualty or Significant Condemnation. Any election by Lessee pursuant to Section 19.1 shall be irrevocable at the time made.

SECTION 19.3. RENEWAL OPTIONS. The exercise of any Renewal Option by Lessee shall be subject to satisfaction of the following conditions:

(i) on the Expiration Date then in effect no Event of Default or Default shall have occurred and be continuing, and on the date Lessee gives notice of its exercise of the Renewal Option, no Event of Default or Default shall have occurred and be continuing; and

(ii) Lessee shall not have exercised the Sale Option or the Purchase Option.

Lessee's exercise of a Renewal Option shall be deemed to be a representation by Lessee that on both the Expiration Date then in effect and the date Lessee gives notice of its exercise of the Renewal Option, no Event of Default or Default shall have occurred and be continuing.

ARTICLE XX SALE OPTION

SECTION 20.1. SALE OPTION PROCEDURES. The Lessee's effective exercise and consummation of the Sale Option with respect to the Leased Property shall be subject to the due and timely fulfillment of each of the following provisions as to the Leased Property as of the dates set forth below.

(a) The Lessee shall have given to the Lessor and the Administrative Agent written notice of the Lessee's exercise of the Sale Option in accordance with Section 19.1.

(b) Prior to the Expiration Date, Lessee shall furnish to Lessor, the Administrative Agent, the Participants and, if the Leased Property is to be sold on the Expiration Date, the independent purchaser hereunder a reasonably current Phase I Environmental Site Assessment of the Leased Property dated no earlier than forty-five (45) days prior to the Expiration Date and addressed to each such party. Such Phase I Environmental Site Assessment shall be prepared by an environmental consultant selected by Lessor in Lessor's reasonable discretion and shall conclude that the Leased Property is free of Environmental Violations. If the Leased Property is sold during the Extended Remarketing period pursuant to Section 20.3, such Environmental Site Assessment shall be updated to a date not later than forty-five (45) days prior to the date of such

sale and shall be subject to the reevaluation of the Participants and, if applicable, the independent purchaser, on the same basis as provided for in the previous sentence. If any such Phase I Environmental Site Assessment indicates any Environmental Violations, Lessee shall take such remedial action as shall be necessary to correct the same, and Lessee shall cause to be delivered prior to the Expiration Date for the Leased Property a Phase II environmental site assessment by such environmental consultant and a written statement by such environmental consultant indicating that all such exceptions have been remedied in compliance with Applicable Laws.

(c) No Event of Default or Default shall exist on or at any time following the date of the exercise of the Sale Option.

(d) Upon surrender of the Leased Property, (i) the Leased Property shall be in the condition required by Section 9.1, (ii) the Lessee shall have paid for and completed or caused to be completed all Modifications required by Section 10.1 and all Modifications commenced prior to the Expiration Date, and Lessee shall have caused to be completed prior to the Expiration Date the repair and rebuilding of the affected portions of the Leased Property suffering a Casualty or Condemnation, (iii) there shall be no deferred maintenance in respect of the Leased Property, and (iv) Lessee shall have remediated any Environmental Violation in accordance with the terms of this Lease.

(e) The Lessee shall, as nonexclusive agent for the Lessor, use reasonable commercial efforts to obtain the highest cash purchase price for the Leased Property. The Lessee will be responsible for hiring brokers and making the Leased Property available for inspection by prospective purchasers, and all marketing of the Leased Property shall be at Lessee's expense. The Lessee shall, upon reasonable notice during normal business hours (subject to Lessee's customary security and safety measures) upon request, permit inspection of the Leased Property and any Leased Property Records by the Lessor, any Participant and any potential purchasers, and shall otherwise do all things reasonably necessary to sell and deliver possession of the Leased Property to any purchaser.

(f) The Lessee shall use reasonable commercial efforts to procure bids from one or more bona fide prospective purchasers to purchase the Leased Property. No such purchaser shall be the Lessee or any Subsidiary or Affiliate of the Lessee.

(g) The Lessee shall submit all bids to the Lessor and the Participants, and the Lessor will have the right to review the same and to submit any one or more bids. All bids shall be on an all-cash basis unless the Lessor and the Required Participants shall otherwise agree in their sole discretion. The Lessee shall deliver to the Lessor and the Participants not less than ninety (90) days prior to the Expiration Date a binding written unconditional (except as set forth below), irrevocable offer by such purchaser or purchasers offering the highest all cash bid to purchase all, but not less than all, of the Leased Property (unless otherwise agreed to by the Lessor and the Required Participants). If Lessor in the exercise of its reasonable judgment believes that the Gross Proceeds to be paid to the Lessor pursuant to clause (k) below from a proposed bid which the Lessee desires to accept is less than the lesser of (i) Fair Market Value or (ii) the Purchase Amount, then Lessor may condition its Obligation to accept any such bid and sell the Leased Property upon Lessor's receipt of an Appraisal demonstrating that such proposed bid is for an

amount at least equal to the lesser of (i) Fair Market Value or (ii) the Purchase Amount of the Leased Property as established by such Appraisal. In such case then Lessor shall promptly following the receipt of such bid, engage an appraiser, reasonably satisfactory to the Required Participants and Lessee, at Lessee's expense, to determine (by appraisal methods reasonably satisfactory to the Required Participants) the Fair Market Value of the Leased Property as of the Expiration Date. A copy of such appraisal shall be delivered to each of the Participants not later than five (5) Business Days prior to the Expiration Date. The appraiser will be instructed to assume that the Leased Property is in the condition required by and has been maintained in accordance with this Lease. Any such appraisal shall be at the sole cost and expense of Lessee.

(h) In connection with any such sale of the Leased Property, the Lessee will provide to the purchaser all customary "seller's" indemnities, representations and warranties regarding title, absence of Liens (except Lessor Liens and Permitted Liens of the type described in clauses (a) (excluding Liens relating to the interest or rights of Lessee), (b), (c) or (g) of the definition of "PERMITTED LIENS") and the condition of such Leased Property. The Lessee shall have obtained, at its cost and expense, all required governmental and regulatory consents and approvals and shall have made all filings as required by Applicable Laws in order to carry out and complete the transfer of the Leased Property. As to the Lessor, any such sale shall be made on an "as is, where is, with all faults" basis without representation or warranty by the Lessor, other than the absence of Lessor Liens. Any agreement as to such sale shall be in form and substance reasonably satisfactory to the Lessor.

(i) The Lessee shall pay or cause to be paid directly, and not from the sale proceeds, any prorations, credits, costs and expenses of or arising from the sale of the Leased Property or Taxes imposed on the sale of the Leased Property, whether incurred by the Lessor or the Lessee, including the cost of all title insurance, surveys, environmental audits, appraisals, transfer taxes, the Lessor's reasonable attorneys' fees, the Lessee's attorneys' fees, commissions, escrow fees, recording fees, and all applicable documentary and other transfer and document taxes.

(j) Whether or not a sale of the Leased Property is completed on the Expiration Date, Lessee shall pay to the Lessor on or prior to the Expiration Date (or in the case of Supplemental Rent, to the Person entitled thereto) an amount equal to (i) the Sale Option Recourse Amount plus (ii) all accrued and unpaid Rent (including Supplemental Rent, if any) and all other amounts hereunder which have accrued or will accrue prior to or as of the Expiration Date, in the type of funds specified in Section 3.4 hereof.

(k) If a sale of the Leased Property is consummated on the Expiration Date, Lessee shall pay directly to Lessor the gross proceeds (the "GROSS PROCEEDS") of such sale to be applied pursuant to Section 5.3(d) of the Participation Agreement.

(l) [Intentionally Deleted].

(m) The Lessee shall, to the extent permitted by Applicable Laws, assign, and shall cooperate with all reasonable requests of the Lessor or the purchaser for obtaining any and all licenses, permits, approvals and consents of any Governmental Authorities or other Persons that

are or will be required to be obtained by the Lessor or such purchaser in connection with its use, operation, control or maintenance of the Leased Property in compliance with Applicable Laws.

If one or more of the foregoing provisions of this Section 20.1 shall not be fulfilled as of the date set forth in clauses (a) through (n) above including Lessee's obligation at Section 20.1(g) to accept a bid for not less than the Fair Market Value of the Leased Property, then the Lessor shall declare by written notice to the Lessee the Sale Option to be null and void (whether or not it has been theretofore exercised by the Lessee), in which event Lessee's obligations at Section 19.2 shall be applicable.

Except as expressly set forth herein, the Lessee shall have no right, power or authority to bind the Lessor in connection with any proposed sale of the Leased Property.

SECTION 20.2. CERTAIN OBLIGATIONS CONTINUE. During the period following Lessee's exercise of the Sale Option and until and including the Expiration Date, the obligation of the Lessee to pay Rent with respect to the Leased Property (including the installment of Rent due on the Expiration Date) shall continue undiminished. The Lessor shall have the right, but shall be under no duty, to solicit bids, to inquire into the efforts of the Lessee to obtain bids or otherwise to take action in connection with any such sale, other than as expressly provided in this Article XX.

SECTION 20.3. FAILURE TO SELL LEASED PROPERTY. If Lessee shall exercise the Sale Option and shall fail to sell the Leased Property on the Expiration Date in accordance with and subject to the provisions of Section 20.1, then Lessee and Lessor hereby agree as follows:

(a) Lessee shall continue to use reasonable commercial efforts as non-exclusive agent for Lessor to sell the Leased Property on behalf of Lessor in accordance with this Article XX for the period (the "EXTENDED REMARKETING PERIOD") commencing on the Lease Expiration Date and ending on the earlier of (i) the sale of the Leased Property in accordance with the provisions of this Article XX or such earlier date as Lessor has received payment in full of the Lease Balance and all accrued and unpaid Rent and (ii) the delivery of a written notice from Lessor to Lessee at any time terminating the Extended Remarketing Period, which notice shall indicate that such termination is being made pursuant to this Section 20.3(a)(ii) and the date such termination shall be effective, which date shall be the Expiration Date if such notice is given prior to the Expiration Date. Without limiting the foregoing, each of Subsections at Section 20.1 (excluding subsection (j) thereof) shall be applicable to the Extended Remarketing Period and any sale during such period. Lessor's appointment of Lessee as Lessor's nonexclusive agent to use its reasonable commercial efforts to obtain the highest all-cash price for the purchase of the Leased Property shall not restrict Lessor's right to market or lease the Leased Property, to retain one or more sales agents or brokers at Lessee's sole cost and expense, provided that an Event of Default has not occurred and is continuing, subject to Lessee's reasonable approval not to be unreasonably withheld or the right of any Participant to submit or cause to be submitted bids for the Leased Property in the manner contemplated by Section 20.1.

(b) On the Expiration Date, Lessee shall return possession of the Leased Property to Lessor in the condition required by this Lease (including each of the requirements and conditions set forth at Section 20.1(b) and Section 20.1(d)). Thereafter, this Lease shall terminate except as provided herein, Lessee shall have no further obligation to pay Basic Rent. Following the Expiration Date, Lessor shall be free to sell or lease the Leased Property to any party at such reasonable times and for such amounts as Lessor deems commercially reasonable and appropriate in order to maximize Lessor's opportunity to recover the Lease Balance. Following the Expiration Date, Lessor shall have the right to enter into leases for the Leased Property at fair market rentals and otherwise on commercially reasonable terms, and the net operating cash flow therefrom shall be payable to Lessor in reduction of the Lease Balance.

(c) Lessor reserves all rights under this Lease and the other Operative Documents arising out of Lessee's breach of any provisions of this Lease (including this Article XX), occurring prior to or on the Expiration Date, including the right to sue Lessee for damages.

(d) To the greatest extent permitted by Applicable Laws and subject to Section 20.3(e) below, Lessee hereby unconditionally and irrevocably waives, and releases Lessor from, any right to require Lessor during or following the Extended Remarketing Period to sell the Leased Property in a timely manner or for any minimum purchase price or on any particular terms and conditions, Lessee hereby agreeing that if Lessee shall elect the Sale Option, its ability to sell the Leased Property on or prior to the Expiration Date and to cause any Person to submit a bid to Lessor pursuant to Section 20.1 shall constitute full and complete protection of Lessee's interest hereunder.

(e) In addition, if Lessor has not sold the Leased Property within two (2) years after its termination of the Extended Remarketing Period, Lessor shall appoint a qualified independent sales agent to sell the Leased Property pursuant to the first bonafide offer received by a creditworthy offeror for an all cash purchase price at the then Fair Market Value of the Leased Property to the extent the conditions therefor are satisfied. Gross Proceeds arising from the sale of the Leased Property shall be applied in accordance with Section 5.3 of the Participation Agreement net of any prorations, credits, costs and expenses of or arising from the sale of the Leased Property or Taxes imposed on the sale of the Leased Property, whether incurred by the Lessor or the Lessee, including the cost of all title insurance, surveys, environmental audits, appraisals, transfer taxes, the Lessor's reasonable attorneys' fees, the Lessee's attorneys' fees, commissions, escrow fees, recording fees, and all applicable documentary and other transfer and document taxes. To determine whether an offer is for the Fair Market Value of the Leased Property, Lessor may condition its obligation to sell on its receipt of an appraisal in accordance with Section 20.1(m). Any determination as to the bonafide nature of an offer or creditworthiness of the offeror shall be made in the reasonable judgment of Lessor and Administrative Agent.

ARTICLE XXI
PROCEDURES RELATING TO PURCHASE OR SALE OPTION

SECTION 21.1. PROVISIONS RELATING TO CONVEYANCE OF THE LEASED PROPERTY UPON PURCHASE BY THE LESSEE, SALES OR CERTAIN OTHER EVENTS. In connection with any termination of this Lease pursuant to the terms of Article XV, any purchase of the Leased Property in accordance with Article XVIII, in connection with the Lessee's obligations under Section 16.2(e), any other conveyance or purchase of the Leased Property made pursuant to the terms of this Lease or the Project Supervisory Agreement, then, upon the date on which this Lease is to terminate with respect to the Leased Property and upon tender by the Lessee of the amounts set forth in Article XV, Sections 16.2(e), 18.1, 18.2 or Article VII of the Project Supervisory Agreement, as applicable:

(i) the Lessor shall execute and deliver to the Lessee (or to the Lessee's designee or other purchaser of the Leased Property) at the Lessee's cost and expense a deed bill of sale and deed with respect to the Leased Property, in each case in recordable form and otherwise in conformity with local custom, in respect of the Lessor's interest in the Leased Property without representation and warranty except as to the absence of any Lessor Liens attributable to the Lessor;

(ii) the Leased Property shall be conveyed to the Lessee "as is, where is" and in its then present physical condition;

(iii) the Lessor will execute and deliver to Lessee or its designee or other purchaser an assignment or assignments, in form reasonably requested by Lessee or other purchaser of the Leased Property, without warranty of any kind except as to the absence of Lessor Liens, of Lessor's rights, if any, under the Equipment Contracts, and the Project Agreements, including any licenses granted under the Project Agreements;

(iv) the Lessor shall execute and deliver to Lessee a statement of termination of this Lease and/or the Project Supervisory Agreement and shall use its best efforts to cause the Administrative Agent to execute and deliver releases of any Liens created by the Operative Documents attributable to the Administrative Agent, and termination statements for any financing statements which are then of record naming the Administrative Agent as the secured party; and

(v) If the Lessee properly exercises the Sale Option, then the Lessee shall, upon a sale thereunder, and at its own cost, transfer or cause to be transferred possession of the Leased Property to the independent purchaser(s) thereof, in each case by surrendering the same into the possession of the Lessor or such purchaser, as the case may be, free and clear of all Liens other than Permitted Liens of the type described in clauses (a) (excluding Liens relating to the rights and interests of Lessee), (b), (c) or (g) of the definition of "Permitted Liens", in good condition (as modified by Modifications permitted by this Lease), ordinary wear and tear excepted, and in compliance in all material respects with Applicable Laws and the provisions of this Lease, and the Lessee shall execute and deliver, with respect to Lessee's interest in the Leased Property, to the

purchaser at the Lessee's cost and expense a bill of sale and deed with respect to the Leased Property, in each case in recordable form and otherwise in conformity with local custom, warranting that such Leased Property is free and clear of all Liens (other than Permitted Liens of the type described in clauses (a) (relating to the rights and interests of Lessee), (b), (c) or (g) of the definition of "Permitted Liens"), together with an assignment, without warranty of any kind, of Lessee's rights, if any, under the Equipment Contracts and the Project Agreements; the Lessee shall execute and deliver to the purchaser and the purchaser's title insurance company an affidavit as to the absence of any Liens (other than Permitted Liens), and such other affidavits and certificates reasonably requested by any title insurance company insuring title to the Leased Property, as well as a FIRPTA affidavit, and an instrument in recordable form declaring this Lease to be terminated on the date of closing of the sale of the Leased Property; the Lessor shall execute and deliver to purchaser an assignment of Lessor's interest in the Ground Lease, without recourse, representation or warranty. The Lessee shall, on and within a reasonable time before and up to one year after the Expiration Date, cooperate reasonably with the Lessor and the purchaser of the Leased Property in order to facilitate the purchase and use by such purchaser of the Leased Property, which cooperation shall include the following, all of which the Lessee shall do on or before the Expiration Date or as soon thereafter as is reasonably practicable: providing all books and records regarding the maintenance, use and ownership of the Leased Property and all know-how, data and technical information relating thereto to the extent such information would typically be provided to a purchaser of similar property, providing a current copy of the Plans and Specifications, granting or assigning, to the extent permitted by Applicable Laws, all licenses necessary for the operation and maintenance of the Leased Property, and cooperating reasonably in seeking and obtaining all necessary Governmental Action. The obligations of the Lessee under this paragraph shall survive the expiration or termination of this Lease.

(vi) As a condition to any such transfer of the Leased Property and Lessor's rights, if any, under the Equipment Contracts, the Project Agreements and the Ground Lease to Lessee or any third party transferee, and as a further condition to Lessee's rights under Article XX, Lessee shall, and shall cause any such third party transferee to, provide any documentation, assurances and assumptions required under and otherwise comply with the terms and conditions of the Equipment Contracts, the Project Agreements and the Ground Lease, and otherwise comply with the requirements under the Equipment Contracts, the Project Agreements and the Ground Lease for any transfer of the Leased Property and Lessor's rights under the Equipment Contract, any Project Agreement and the Ground Lease.

ARTICLE XXII ACCEPTANCE OF SURRENDER

SECTION 22.1. ACCEPTANCE OF SURRENDER. No surrender to the Lessor of this Lease or of the Leased Property or of any part of any thereof or of any interest therein shall be valid or effective unless agreed to and accepted in writing by the Lessor and, prior to the payment or performance of all obligations under the Loan Agreement and termination of the Commitments, the Lenders,

and no act by the Lessor or the Lenders or any representative or agent of the Lessor or the Lenders, other than a written acceptance, shall constitute an acceptance of any such surrender.

ARTICLE XXIII
NO MERGER OF TITLE

SECTION 23.1. NO MERGER OF TITLE. There shall be no merger of this Lease or of the leasehold estate created hereby by reason of the fact that the same Person may acquire, own or hold, directly or indirectly, in whole or in part, (a) this Lease or the leasehold estate created hereby or any interest in this Lease or such leasehold estate, (b) title to the Leased Property, except as may expressly be stated in a written instrument duly executed and delivered by the appropriate Person or (c) a beneficial interest in the Lessor.

ARTICLE XXIV
INTENT OF THE PARTIES

SECTION 24.1. NATURE OF TRANSACTION. It is the intention of the parties that:

(a) the Overall Transaction constitutes an operating lease from Lessor to Lessee for purposes of Lessee's financial reporting, including, without limitation, under Financial Accounting Standards Board Statement No. 13;

(b) for purposes of federal and all state and local income and transfer taxes, bankruptcy, insolvency, conservatorships and receiverships (including the substantive law upon which bankruptcy, conservatorship and insolvency and receivership proceedings are based) purposes

(i) the Overall Transaction (including the transactions and activities prior to the Base Term Commencement Date referred to or contemplated in the Project Supervisory Agreement) constitutes a financing by the Participants to Lessee and preserves beneficial ownership in the Leased Property in Lessee, Lessee will be entitled to all tax benefits ordinarily available to owners of property similar to the Leased Property for tax purposes and the obligations of Lessee to pay Basic Rent shall be treated as payments of interest to the Participants, and the payment by Lessee of any amounts in respect of the Lease Balance shall be treated as payments of principal to the Participants;

(ii) this Lease provides for a security interest or a Lien, as the case may be, in the Lessee's interest in the Leased Property and the other Collateral, in favor of the Lessor, and for the benefit of the Participants, to secure Lessee's payment and performance of the Obligations; and

(iii) the Security Instruments create Liens on and security interests in the Collateral in favor of the Administrative Agent for the benefit of all of the

Participants to secure Lessor's payment and performance of its obligations under the Operative Documents.

Nevertheless, Lessee acknowledges and agrees that none of Lessor, the Administrative Agent, Arranger or any Participant has made any representations or warranties to it concerning the tax, accounting or legal characteristics of the Operative Documents or any aspect of the Overall Transaction and that Lessee has obtained and relied upon such tax, accounting and legal advice concerning the Operative Documents and the Overall Transaction as it deems appropriate.

(c) Specifically, but without limiting the generality of subsection (a) of this Section 24.1, the Lessor and the Lessee intend and agree that for the purpose of securing the Lessee's obligations for the repayment of the Obligations, (i) the Lease shall also be deemed to be a security agreement and financing statement within the meaning of Article 9 of the Uniform Commercial Code; (ii) the conveyance provided for hereby shall be deemed to be a grant by the Lessee to the Lessor, for the benefit of the Participants, of a Lien (including the Deed of Trust) on and security interest in all of the Lessee's present and future right, title and interest in and to the Leased Property, including but not limited to the Lessee's leasehold estate therein and all proceeds of the conversion, voluntary or involuntary, of the foregoing into cash, investments, securities or other property, whether in the form of cash, investments, securities or other property to secure such loans, effective on the date hereof, to have and to hold such interests in the Leased Property and the other Collateral unto the Lessor, for the benefit of the Participants; (iii) to the extent permitted by Applicable Law, the possession by the Lessor of notes and such other items of property as constitute instruments, money, negotiable documents or chattel paper shall be deemed to be "possession by the secured party" for purposes of perfecting the security interest pursuant to Section 9-305 of the Uniform Commercial Code; and (iv) to the extent permitted by Applicable Law, notifications to Persons holding such property, and acknowledgments, receipts or confirmations from financial intermediaries, bankers or agents (as applicable) of the Lessee shall be deemed to have been given for the purpose of perfecting such security interest under Applicable Laws. The Lessor and the Lessee shall, to the extent consistent with the Lease, take such actions and execute, deliver, file and record such other documents, financing statements, mortgages and deeds of trust as may be necessary to ensure that, if the Lease were deemed to create a security interest in the Leased Property and the other Collateral in accordance with this Section, such security interest would be deemed to be a perfected security interest in the Leased Property with priority over all Liens, other than Permitted Liens, under Applicable Laws and will be maintained as such throughout the Term.

SECTION 24.2. LESSEE GRANT OF MORTGAGE AND SECURITY INTEREST. (a) For the purposes of the creation and enforcement of this Lease as a Mortgage and security agreement, Lessee hereby grants, conveys, assigns, mortgages and transfers lien and security interest in its rights and interests in the Leased Property and the other Collateral in favor of the Lessor, and for the benefit of the Participants, and Lessee hereby irrevocably grants, bargains, sells, alienates, remises, releases, confirms, conveys, mortgages and warrants Lessee's interest in and to the Leased Property and the other Collateral to Lessor and for the benefit of the Participants, With (to the extent permitted by law) Power of Sale, to have and to hold to secure all Obligations.

(b) In the event this Lease is deemed a security agreement and a fixture filing, Lessee is the debtor and Lessor is the secured party. The mailing addresses of the debtor (Lessee herein) and of the secured party (Lessor herein) from which information concerning security interests pursuant to this Lease may be obtained are as set forth on the first page of this Lease. A carbon, photographic or other reproduction of this Lease or of any financing statement related to this Lease shall be sufficient as a financing statement for any of the purposes referenced in this Lease.

(c) Upon the occurrence of a Lease Event of Default under the Lease, Lessor shall have the power and authority, to the extent provided by law, after proper notice and lapse of such time as may be required by law, to foreclose and/or sell such interest in the Leased Property and the Other Collateral at the time and place of sale fixed by Lessor in such notice of sale, either as a whole, or in separate lots or parcels or items and in such order as Lessor may elect, at auction to the highest bidder for cash in lawful money of the United States payable at the time of sale.

(d) Lessor may bid and become the purchaser of all or any part of the Leased Property and the Other Collateral at any such sale, and the amount of Lessor's successful bid may be credited against the Obligations.

(e) Accordingly, it is acknowledged that (to the extent permitted by law) a power of sale has been granted in this instrument; a power of sale may allow lessor to take such interest in the leased property and the Other Collateral and sell it, either as a whole or in separate lots or parcels, without going to court in a foreclosure action upon default by the lessee under this instrument.

(f) Upon the occurrence and during the continuance of any Event of Default under the Lease, Lessor, in lieu of or in addition to exercising any power of sale hereinabove, may proceed by a suit or suits in equity or at law, whether for a foreclosure hereunder, or for the sale of such interest in the Leased Property, for the specific performance of any covenant or agreement herein contained or in aid of the execution of any power herein granted, or for the appointment of a receiver pending any foreclosure hereunder or the sale of such interest in the Leased Property, or for the enforcement of any other appropriate legal or equitable remedy.

ARTICLE XXV
MISCELLANEOUS

SECTION 25.1. SURVIVAL; SEVERABILITY; ETC. Anything contained in this Lease to the contrary notwithstanding, all claims against and liabilities of the Lessee or the Lessor arising from events commencing prior to the expiration or earlier termination of this Lease shall survive such expiration or earlier termination. To the extent permitted by Applicable Law, if any term or provision of this Lease or any application thereof shall be declared invalid or unenforceable, the remainder of this Lease and any other application of such term or provision shall not be affected thereby. If any right or option of the Lessee provided in this Lease, including any right or option described in Articles XIV, XV, XVIII, XIX or XX, would, in the absence of the limitation imposed by this sentence, be invalid or unenforceable as being in violation of the rule against perpetuities or any other rule of law relating to the vesting of an interest in or the suspension of

the power of alienation of property, then such right or option shall be exercisable only during the period which shall end twenty-one (21) years after the date of death of the last survivor of the descendants of Franklin D. Roosevelt, the former President of the United States, Henry Ford, the deceased automobile manufacturer, and John D. Rockefeller, the founder of the Standard Oil Company, known to be alive on the date of the execution, acknowledgment and delivery of this Lease.

SECTION 25.2. AMENDMENTS AND MODIFICATIONS. Subject to the requirements, restrictions and conditions set forth in the Participation Agreement, neither this Lease nor any provision hereof may be amended, waived, discharged or terminated except by an instrument in writing, in recordable form, signed by the Lessor and the Lessee.

SECTION 25.3. NO WAIVER. No failure by the Lessor or the Lessee to insist upon the strict performance of any term hereof or to exercise any right, power or remedy upon a default hereunder, and no acceptance of full or partial payment of Rent during the continuance of any such default, shall constitute a waiver of any such default or of any such term. To the fullest extent permitted by law, no waiver of any default shall affect or alter this Lease, and this Lease shall continue in full force and effect with respect to any other then existing or subsequent default.

SECTION 25.4. NOTICES. All notices, demands, requests, consents, approvals and other communications hereunder shall be in writing and directed to the address described in, and deemed received in accordance with the provisions of, Section 15.3 of the Participation Agreement.

SECTION 25.5. SUCCESSORS AND ASSIGNS. All the terms and provisions of this Lease shall inure to the benefit of the parties hereto and their respective successors and permitted assigns.

SECTION 25.6. HEADINGS AND TABLE OF CONTENTS. The headings and table of contents in this Lease are for convenience of reference only and shall not limit or otherwise affect the meaning hereof.

SECTION 25.7. COUNTERPARTS. This Lease may be executed in any number of counterparts, each of which shall be an original, but all of which shall together constitute one and the same instrument.

SECTION 25.8. GOVERNING LAW. This Lease shall be governed by, and construed and interpreted in accordance with, the laws of the State of New York, without regard to Conflicts of Law principles (other than Title 14 of Article 5 of the New York General Obligations Law), except as to matters relating to the creation of the leasehold estates hereunder and the exercise of rights and remedies with respect to the Leased Property, which shall be governed by and construed in accordance with the law of the state in which the Leased Property is located. Without limiting the foregoing, in the event that this lease is deemed to constitute a financing, which is the intention of the parties for this purpose, the laws of the State of New York, without regard to conflicts of Laws principles (other than Title 14 of Article 5 of the New York General Obligations Law),

shall govern the creation, terms and provisions of the indebtedness evidenced hereby and the creating of the lien granted hereunder, but perfection and enforcement of said lien shall be governed by and construed in accordance with the law of the state in which the leased property is located.

SECTION 25.9. ORIGINAL LEASE. The single executed original of this Lease marked "This Counterpart Is the Original Executed Counterpart" on the signature page thereof and containing the receipt thereof of Administrative Agent, on or following the signature page thereof shall be the Original Executed Counterpart of this Lease (the "ORIGINAL EXECUTED COUNTERPART"). To the extent that this Lease constitutes chattel paper, as such term is defined in the Uniform Commercial Code, no security interest in this Lease may be created through the transfer or possession of any counterpart other than the Original Executed Counterpart.

SECTION 25.10. LIMITATIONS ON RECOURSE. The parties hereto agree that, except as specifically set forth in the Lease or in any other Operative Document, Wells Fargo Bank Northwest, National Association shall have no personal liability whatsoever to the Lessee or its respective successors and assigns for any claim based on or in respect of this Lease or any of the other Operative Documents or arising in any way from the Overall Transaction; PROVIDED, HOWEVER, that Wells Fargo Bank Northwest, National Association shall be liable in its individual capacity (a) for its own willful misconduct or gross negligence (or negligence in the handling of funds), (b) for any Tax based on, with respect to or measured by any income, fees, commission, compensation or other amounts received by it as compensation for services (including for acting as the Lessor) or otherwise under, or as contemplated by, the Operative Documents, (c) Lessor Liens on the Leased Property which are attributable to it, (d) for its representations and warranties made in its individual capacity in the Participation Agreement or in any certificate or documents delivered pursuant thereto, (e) for its failure to perform any of its covenants and agreements set forth in the Participation Agreement or any other Operative Document, and (f) as otherwise expressly provided in the Operative Documents.

SECTION 25.11. TRANSFER OF LEASED PROPERTY. (i) Whenever pursuant to any provision of this Lease Lessor is required to transfer the Leased Property to Lessee or to an independent third party, such transfer shall be made at Lessee's expense by the transfer by a deed without covenants or warranties of title, except for matters arising by, through or under Lessor, of all of Lessor's interest in and to the Leased Property on an "as is, where is, with all faults" basis but free and clear of all Lessor Liens and otherwise without recourse, representation or warranty of any kind, and together with the due assumption by Lessee (or such third party) of, and due release of Lessor from, all obligations relating to the Leased Property or any of the Operative Documents. In connection with any transfer to an independent third party, Lessee shall execute and deliver such customary and reasonable documents, certificates and estoppels as may reasonably be required to facilitate the transfer of the Leased Property. Any provision in this Lease or any other Operative Document to the contrary notwithstanding, Lessor shall not be obligated to make any such transfer until Lessor and the Participants have received all Rent and other amounts due and owing hereunder and under the other Operative Documents including any Break Costs. At or subsequent to the transfer or return of the Leased Property, Lessee will provide Lessor with such lien and title searches as Lessor may reasonably request to demonstrate

to Lessor's satisfaction that the Leased Property is subject to no Liens for which Lessor would be liable under any warranties of title.

(ii) Lessee may assign to another Person its right, upon a purchase by Lessee, to take title to the Leased Property pursuant to Section 20.1(b); PROVIDED, that (i) Lessee shall exercise any option, (ii) such assignee shall be bound by the provisions of Section 20.1(b), (iii) Lessee shall have represented by an instrument in writing and delivered to Lessor that all necessary Governmental Actions with respect to such transfer, including the purchase of the Leased Property by any other Person as contemplated herein, have been obtained or made, as applicable, and (iv) no such assignment shall release Lessee from its obligations under the Operative Documents, and Lessee shall remain personally liable to Lessor for the payment of all amounts due under any such Section and this Section 25.11.

SECTION 25.12. EFFECTIVE DATE. The parties hereto agree that, for purposes of granting the lien hereunder, this Lease shall be effective on the Document Closing Date.

[END OF PAGE]
[SIGNATURE PAGES FOLLOW]

In Witness Whereof, the parties have caused this Lease be duly executed and delivered as of the date first above written.

Kansas City Power & Light Company, as Lessee

By: /s/Andrea F. Bielsker
Name: Andrea F. Bielsker
Title: Vice President-Finance, Chief Financial Officer and Treasurer

Lease

Wells Fargo Bank Northwest, National
Association, not in its individual
capacity, but solely as Certificate
Trustee, as Lessor

By: /s/Val T. Orton
Name: Val T. Orton
Title: Vice President

AMENDMENT NO. 4 TO CREDIT AGREEMENT

This Amendment No. 4 (this "Amendment") dated as of April 30, 2001 is among KLT Inc. (the "Borrower"), the undersigned Lenders and Bank One, NA, as agent for the Lenders (in such capacity, the "Agent").

W I T N E S S E T H :

WHEREAS, the Borrower, the Lenders and the Agent are parties to a Second Amended and Restated Credit Agreement dated as of June 30, 2000 (as previously amended, the "Credit Agreement"); and

WHEREAS, the Borrower, the Lenders and the Agent desire to amend the Credit Agreement in certain respects more fully described below;

NOW, THEREFORE, for good and valuable consideration, the receipt of which is hereby acknowledged, the parties agree as follows:

SECTION 1 DEFINED TERMS. Capitalized terms used herein and not otherwise defined shall have the meanings attributed to such terms in the Credit Agreement.

SECTION 2 AMENDMENTS TO THE CREDIT AGREEMENT. Effective upon the satisfaction of the conditions precedent set forth in Section 4, the Credit Agreement shall be amended as follows:

(a) The definition of "Tender Line Facility" in Article I is amended in its entirety to read as follows:

"Tender Line Facility" means a credit facility entered into by DTI providing for loans to DTI, in an aggregate amount not exceeding \$95,000,000, to finance the purchase of DTI Notes, and refinancings of all or part thereof so long as the principal amount of such credit facility and such refinancings does not in the aggregate at any time exceed \$95,000,000.

(b) Clause (vii) of Section 6.11 is amended in its entirety to read as follows:

(vii) Rate Hedging Obligations related to the Loans or the Working Capital Facility.

(c) Section 6.11 is amended by adding the following clause (xii):

(xii) Indebtedness of KLT Gas Inc. not exceeding \$17,000,000 in the aggregate arranged by Bank One.

(d) Section 6.13 is amended by (1) deleting the word "and" before clause (iv), substituting a comma therefor and inserting the word "and" after clause (iv) and (2) adding the following clause (v):

(v) the sale by KLT Gas Inc. of its interest in Patrick KLT Gas, LLC.

(e) Clause (vi) of Section 6.18 is amended in its entirety to read as follows:

(vi) Liens in favor of the Lenders granted pursuant to any Collateral Document.

(f) Clause (xvii) of Section 6.18 is amended in its entirety to read as follows:

(xvii) Liens on the assets and capital stock of Subsidiaries of DTI to secure the obligations of DTI and such Subsidiaries under the Working Capital Facility.

- (g) Section 6.19 is amended by deleting the parenthetical phrase therein and substituting the following therefor: "(other than (i) Indebtedness of DTI and its Subsidiaries described in Section 6.11(xi) or incurred under the DTI Notes, the Exchange Notes, the Tender Line Facility or the Working Capital Facility, PROVIDED that neither the Borrower nor any of its Subsidiaries, other than DTI and its Subsidiaries, shall have any obligations (contingent or otherwise) with respect to such Indebtedness, (ii) KLT Investments Debt and (iii) Non-Recourse Debt)."
- (h) Section 6.23 is amended by deleting the parenthetical phrase therein and substituting the following therefor: "(other than (i) Indebtedness of DTI and its Subsidiaries described in Section 6.11(xi) or incurred under the DTI Notes, the Exchange Notes, the Tender Line Facility or the Working Capital Facility, PROVIDED that neither the Borrower nor any of its Subsidiaries, other than DTI and its Subsidiaries, shall have any obligations (contingent or otherwise) with respect to such Indebtedness, (ii) KLT Investments Debt and (iii) Non-Recourse Debt)."

SECTION 3 REPRESENTATIONS AND WARRANTIES. To induce the Agent and the Lenders to enter into this Amendment, the Borrower represents and warrants that:

- (a) The representations and warranties set forth in Article V of the Credit

Agreement are true, correct and complete on the date hereof as if made on and as of the date hereof.

(b) No Default or Unmatured Default exists on the date hereof.

SECTION 4 EFFECTIVE DATE. This Amendment shall become effective as of the date first written above upon receipt by the Agent of each of the following counterparts of this Amendment duly executed by the Borrower and the Required Lenders.

SECTION 5 RATIFICATION. The Credit Agreement, as amended hereby, is hereby ratified, approved and confirmed in all respects.

SECTION 6 REFERENCES TO CREDIT AGREEMENT. From and after the effective date hereof, each reference in the Credit Agreement to "this Agreement", "hereof" or "hereunder" or words of like import, and all references to the Credit Agreement in any and all other agreements, instruments, documents, notes, certificates and other writings of every kind and nature, shall be deemed to mean the Credit Agreement as amended by this Amendment.

SECTION 7 COSTS AND EXPENSES. The Borrower agrees to pay all costs, fees and out-of-pocket expenses (including attorneys' fees and charges of attorneys for the Agent, which attorneys may be employees of the Agent) incurred by the Agent in connection with the preparation, execution and delivery of this Amendment.

SECTION 8 CHOICE OF LAW. THIS AMENDMENT SHALL BE CONSTRUED IN ACCORDANCE WITH THE INTERNAL LAWS (AND NOT THE LAW OF CONFLICTS) OF THE STATE OF ILLINOIS.

SECTION 9 EXECUTION IN COUNTERPARTS. This Amendment may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute one and the same agreement.

IN WITNESS WHEREOF, the Borrower, the undersigned Lenders and the Agent have executed this Amendment as of the date first above written.

KLT INC.

By: /s/ Gregory J. Orman
Name: Gregory J. Orman
Title: President and Chief Executive Officer

BANK ONE, NA, individually and as Agent

By: /s/ Mary Lu D. Cramer
Name: Mary Lu D. Cramer
Title: Vice President

ABN AMRO BANK N.V.

By: /s/ Jeffrey Dodd
Name: Jeffrey Dodd
Title: Group Vice President

By: /s/ Kris A. Grosshans
Name: Kris A. Grosshans
Title: Senior Vice President

WESTDEUTSCHE LANDESBANK
GIROZENTRALE, NEW YORK BRANCH

By: /s/ Lisa Walker
Name: Lisa Walker
Title: Associate Director

By: /s/ Walter T. Duffy III
Name: Walter T. Duffy III
Title: Associate Director

COMMERZBANK AKTIENGESELLSCHAFT, NEW YORK
AND GRAND CAYMAN BRANCHES

By:
Name:
Title:

By:
Name:
Title:

THE DAI-ICHI KANGYO BANK, LTD., CHICAGO
BRANCH

By: /s/ Nobuyasu Fukatsu
Name: Nobuyasu Fukatsu
Title: General Manager

AMENDMENT 2 TO CREDIT AGREEMENT

This Amendment 2 to Credit Agreement (the "Amendment") is entered into as of June 4, 2001, by and between KLT Telecom Inc. (the "Lender") and Digital Teleport, Inc. (the "Borrower").

Whereas, Lender and Borrower have entered into a certain Credit Agreement dated as of February 21, 2001, providing for revolving credit loans of up to \$25 million in the aggregate, which was amended by Amendment 1 dated as of April 30, 2001, to provide, among other things, an increase in the available commitment to \$35 million (as so amended, the "Credit Agreement"), and

Whereas, Borrower has requested to increase the maximum borrowing amount under the Credit Agreement, and Lender is willing to increase such amount on the terms and conditions herein.

Therefore, in consideration of the of the undertakings set forth herein and other good and valuable consideration, the receipt of which is hereby acknowledged, the parties hereto hereby agree as follows:

1. Capitalized terms used herein and not otherwise defined shall have the meanings attributed to such terms in the Credit Agreement.

2. The definition of "Commitment" in Article I of the Credit Agreement is amended in its entirety to read as follows:

"Commitment" means the obligation of the Lender to make Loans not exceeding Forty Five Million Dollars (\$45,000,000.00) in aggregate principal amount at any time outstanding.

3. This Amendment shall take effect on the last to occur of (i) the execution and delivery of this Amendment by Borrower and Lender, and (ii) Lender executing and delivering to Borrower a Second Amended and Restated Demand Promissory Note, in the form attached hereto as Exhibit A.

4. To induce the Lender to enter into this Amendment, the Borrower represents and warrants that:

(a) The representations and warranties set forth in Article IV of the Credit Agreement are true, correct and complete on the date hereof as if made on and as of the date hereof.

(b) No Default exists on the date hereof.

5. The Credit Agreement, as amended hereby, is hereby ratified, approved and confirmed in all respects.

In witness whereof, Lender and Borrower have executed this Amendment as of the date first above written.

Digital Teleport, Inc.

By: /s/ Gary W. Douglass

Name: Gary W. Douglass

Title: Senior Vice President
and Chief Financial
Officer

8112 Maryland Avenue, Suite 400
St. Louis, MO 63105

Telecopier: (314) 253-1999

KLT Telecom Inc.

By: /s/ Mark Schroeder

Name: Mark Schroeder

Title: Vice President

10740 Nall, Suite 230
Overland Park, KS 66211

Telecopier: (913) 967-4340