WESTERN RESOURCES BOARD OF DIRECTORS
HUMAN RESOURCES COMMITTEE
May 17, 2000

The Western Resources Human Resources Committee of the Board of Directors met at a regular meeting on May 17, 2000. The following members were present: Frank J. Becker, Chairman, Gene A. Budig and John C. Dicus. Participating from Western Resources were David C. Wittig and Carl M. Koupal, Jr. Also participating was Brent Longnecker, Executive Vice President, Resources Connection and Cara King, Practice Leader, Resources Connection.

The Committee reviewed and approved the minutes of the January 26, 2000 meeting of the Committee.

The Committee then had a discussion concerning the newspaper articles with regard to the CEO's compensation. The circumstances surrounding David Wittig's one-time retention bonus was discussed by the Committee along with the other terms of the agreement entered into upon his hiring in 1995.

The Committee then reviewed executive compensation. Discussion concerning the recommendations was conducted by David Wittig and Brent Longnecker. The Committee reviewed the presentation by Brent Longnecker and Resources Connection concerning market levels for base compensation, short-term incentives and long-term incentives. The Committee approved the recommendations as outlined in the Resources Connection report.

The Committee also reviewed the recommendation by David Wittig of the election of five new officers: Richard A. Dixon, Larry D. Irick, Peggy S. Loyd, Shane A. Mathis and Caroline A. Williams. Further, the Committee reviewed the letter from Resources Connection concerning the recommended compensation for these officers. The election of these individuals was approved by the Committee and recommended to the full Board of Directors for their review and approval.

The Committee also reviewed in detail two employee retention programs as outlined by Resources Connection. The first plan was to enter into change in control and employee agreements with the officers of the company, and the second plan, an employee retention program for all non-union employees of the company. The Committee discussed both of these plans in detail including the presentation made by Resources Connection on these plans. It was moved, seconded and approved by the Committee to approve the employee plans with the understanding that the Committee would like to have a final review of the details of the change in control agreements, as well as an overall summary of the potential financial impact of the broad base employee plan.

The Committee then reviewed the proposal to convert the stock options and dividend equivalents to restricted shares pursuant to the recommendations outlined in the Resources Connection report. It was moved, seconded and approved by the Committee to recommend to the full Board this recommended conversion of the stock options and DERs to restricted shares; again, with the Committee to review the final numbers on the conversion of the restricted shares.

The Committee then reviewed the other items outlined in the Resources Connection document on human resources concerns, particularly with regard to restricted stock, the senior employee retirement program, stock for compensation and the split dollar program. No action was taken by the Committee.

The Committee then considered a proposed amendment to the Director deferred compensation program whereby the phantom stock investment alternative was eliminated as a part of the cash compensation of Directors. After discussion on this item, it was moved, seconded and approved by the Committee for recommendation to the Board to amend the Directors' deferred compensation plan.

The Committee then adjourned.

Submitted by,

Carl M. Koupal, Jr.

Western Resources

CARL M. KOUPAL, JR.
Executive Vice President and
Chief Administrative Officer

April 24, 2000

To: Mr. Frank J. Becker, Chairman
Dr. Gene A. Budig
Mr. John C. Dicus

Gentlemen:

Please be advised there will be a meeting of the Human Resources Committee of the Board of Directors of Western Resources on May 17 at 8:00 a.m. The meeting will be held in the west conference room of the 11th floor.

We look forward to seeing you.

Sincerely,

CMK/naf
cc: Mr. David C. Wittig
Mr. Richard D. Terrill

818 South Kansas Avenue / P.O. Box 889 / Topeka, Kansas 66601
Telephone: (785) 575-6358 / Fax: (785) 575-1563
Mobile: (785) 224-4070 / Internet: carl_koupal@wstnres.com

Western Resources

CARL M. KOUPAL, JR.
Executive Vice President and
Chief Administrative Officer

May 12, 2000

Via Federal Express
Mr. Frank J. Becker
REDACTED

Dear Frank:

Enclosed please find the proposed agenda for the meeting of the Human Resources Committee on Wednesday, May 17, as well as current drafts of reports prepared by Resources Connection on several items.

The following is a summary of the agenda items for review next week:

Compensation Review
This report is similar to the reports prepared the last few years by Resources Connection. The recommendations are summarized as follows:

Base Salary
No cash salary increases for the executive committee, with the exception of Rick Terrill and Rita Sharpe who are significantly below market.

Two percent increase for other officers, which is the same as provided to non-union employees, with the exception of Lee Wages who also is below market.

Annual Incentives
No change in the annual incentive program.

Long-Term Incentive
Recommended grants in the form of restricted stock -- as we have done previously.

Retention Bonuses
The recommendation contains one-time stock awards for certain officers who have not received significant salary increases or bonus payments.

818 South Kansas Avenue / P.O. Box 889 / Topeka, Kansas 66601
Telephone: (785) 575-6358 / Fax: (785) 575-1563
Mobile: (785) 224-4070 / Internet: carl_koupal@wstnres.com

Election of Officers
We would like to recommend the election of several new officers. These are individuals playing critical roles for us in the organization. Given this time of uncertainty, it is important that we retain them and would propose that they be elected as officers.

As you can see on the enclosed schedule, we are recommending rather modest increases in their compensation.

Employee Retention Program
In the other document from Resources Connection, there are two programs proposed for Committee action: 1) employee plans for officers and other non-union employees; 2) conversion of the stock options and dividend equivalents to restricted stock.

Resources Connection believes these are competitive with the market and we believe important as we prepare for future actions.

The other issues addressed in the report deal with other human resources matters to consider in conjunction with the split of the company: restricted shares, SERP, stock for compensation, and split dollar. No formal action is being requested of the committee at this meeting, but Brent Longnecker of Resources Connection will review some suggested approaches on these matters.

Director Deferred Compensation
This is a clean-up amendment to clarify whether a director has a deferral in phantom stock (which would eventually be paid out in cash) or actual shares.

If you, or other committee members have any questions about these items, please feel free to call David or me. We look forward to seeing you next week.

Sincerely,

CMK/naf
Enclosures
cc: Mr. David C. Wittig
Dr. Gene A. Budig
Mr. John C. Dicus

Human Resources Committee
Agenda
May 17, 2000

	Items	Requires	Tab
I	Review and Approval of Minutes of January 26, 2000 Meeting	Committee	A
II	Review of Recommendations by Resources Connection Concerning Executive Compensation	Resolution/ Committee	B
III	Election of Officers	Resolution/ Committee/ Board	C
IV	Review of Employee Retention Program	Resolution/ Committee/ Board	D
V	Review of Recommendations for Human Resources Programs -Restricted Stock -SERP -Stock for Compensation -Split Dollar		E
VI	Director Deferred Compensation Plan	Committee/ Board	F
VII	Other Business		
	Adjourn		

CHK – Notes

(1) Review of #s by committee

Human Resources Committee

May 17, 2000

Western Resources

-Stock on Scoring
-Definition of CIC.

Human Resources Committee
Agenda
May 17, 2000

	Items	Requires	Tab
I	Review and Approval of Minutes of January 26, 2000 Meeting	Committee	A
II	Review of Recommendations by Resources Connection Concerning Executive Compensation	Resolution/ Committee	B - Motion carried.
III	Election of Officers	Resolution/ Committee/ Board	C - OK.
IV	Review of Employee Retention Program	Resolution/ Committee/ Board	D Move of final review by Committee.
V	Review of Recommendations for Human Resources Programs -Restricted Stock -SERP -Stock for Compensation -Split Dollar		E
VI	Director Deferred Compensation Plan	Committee/ Board	F
VII	Other Business		
	Adjourn		

f/u

(1) # of employees affected - cost to do so.

(2) Review on # for conversion of options to RSA

WS030073

A

WESTERN RESOURCES BOARD OF DIRECTORS
HUMAN RESOURCES COMMITTEE
January 26, 2000

The Western Resources Human Resources Committee of the Board of Directors met at a regular meeting on January 26, 2000. The following members were present: Frank J. Becker, Chairman, Gene A. Budig and John C. Dicus. Participating from Western Resources were David C. Wittig and Carl M. Koupal, Jr. Also participating was Brent Longnecker, Executive Vice President, Re:sources Connection.

The Committee reviewed and approved the minutes of the July 21, 1999 meeting of the Committee.

The Committee reviewed the recommendations contained in the Re:sources Connection letter of January 20, 2000 and the recommended number of stock options and restricted stock awards for members of the executive council and approved those as presented. In addition, the Committee approved the additional stock options outlined for the remaining officers and other exempt and non-exempt, non-union employees of the company at the same level as approved in 1999.

The Committee also approved a special bonus for executive council member, Richard D. Terrill, in the amount of $28,400 after discussion by David C. Wittig and members of the Committee.

The Committee then reviewed a proposed amendment to the Western Resources Retirement Plan to simplify the administration of the plan in connection with former KGE employees with vested plan benefits who are also entitled to a retirement benefit under the Wolf Creek Nuclear Operating Corporation Retirement Plan. The amendment permits qualifying participants to draw benefits from both plans simultaneously. This item was approved by the Committee and recommended to the full Board of Directors for their review and approval.

The Committee then heard a presentation by Brent Longnecker of Re:sources Connection concerning change in control issues which Mr. Longnecker suggested to the Committee. No action was requested nor taken by the Committee on these items.

The Committee then adjourned.

Submitted by,

Carl M. Koupal, Jr.

B

COMPENSATION
AND
LONG AND SHORT TERM INCENTIVES

RESOLVED, that the base annual compensation of the Executive Council be, and hereby is, modified as presented to the meeting, effective March 1, 2000; and further

RESOLVED, that the short term incentive criteria and goals for 2000 be, and hereby are, approved as presented to the meeting; and further

RESOLVED, that the officers of the Company be, and hereby are, authorized to cancel outstanding stock options and to grant Restricted Shares as presented to the meeting; and further

RESOLVED, that the officers of the Company be, and hereby are, authorized to take such actions as they may deem necessary or appropriate to carry out the foregoing resolution.

RESOURCES
CONNECTION

May 15, 2000

Mr. Carl Koupal
EVP -Administration
Western Resources, Inc.
818 South Kansas Avenue
Topeka, KS 66601

Dear Carl:

Per your request, Resources Connection ("Resources") has conducted an analysis of base salary levels for key employees at Western Resources, Inc. ("WR" or "the Company"). The following highlights the results of our analysis and recommendations.

Analysis

Similar to the analysis of officer compensation levels contained in the report entitled Executive Compensation Review, Resources utilized published salary surveys to determine the market midpoint for five executive-level positions. A salary range was then built around the market midpoint to account for varying levels of experience and performance. Generally accepted compensation planning principles indicate that a range typically has a spread, or width, of 70% for executive level positions. The minimum of the salary range indicates where in the range a new incumbent with little or no experience in the job should be compensated, and the midpoint of the salary range reflects where in the range an incumbent who is fully qualified in the job and meets to slightly exceeds expectations should be compensated.

In order to compare current salaries to the market midpoint, a ratio to market was calculated. A ratio of less than 1.00 indicates that an individual's current rate of pay is less than the market average and a ratio greater than 1.00 indicates the individual is currently paid above the average market. The following table illustrates the results of this analysis and the market salary range for each of the positions.

May 15, 2000
Mr. Carl Koupal
Page 2

Executive Name	Position	WR Current Base	Market Minimum	Market Midpoint	Market Maximum	Ratio to Market
Williams, C.	VP - Customer Service					
Mathis, S.	VP - ~~Power Marketing~~ Utility			REDACTED		
Loyd, P.	VP - Financial Services					
Dixon, D.	VP - Transmission Services					
Irick, L.	Corporate Secretary					
Average						

Overall, WR's base salary levels for this group of individuals is slightly below the competitive market; however, all of the executives are compensated within the defined range of reasonableness.

Recommendations

In light of the importance of the above jobs to the organization and the market competitive data indicated previously, it is recommended that the above positions be classified as officers and be moved to a salary grade 10. The following table indicates each individual's current base salary and the recommended salary and salary increase percentage resulting from the market analysis. The recommendations take into account both internal equity and external market competitiveness.

Executive Name	Position	Current Grade	WR Current Base	Recom. Grade	Recom. Base Salary	Percentage Increase
Williams, C.	VP - Customer Service					
Mathis, S.	VP - ~~Power Marketing~~ Utility			REDACTED		
Loyd, P.	VP - Financial Services					
Dixon, D.	VP - Transmission Services					
Irick, L.	Corporate Secretary					

Carl, upon completion of your review of the above, please contact me at (281) 618-8805 with any questions, comments, or concerns.

Sincerely,

Brent Longnecker, Executive Vice President
Human Capital Consulting

cc: Cara King, Practice Leader

Richard A. Dixon

Executive Director, Transmission Operations
Western Resources, Inc.

Business Record: Executive Director, Transmission Operations, Western Resources, 1996 to present

Director, Federal Regulations, Western Resources, 1990 to 1996

Director, Rates and Revenue Requirements, Western Resources, 1985 to 1990

Manager of Rates, Western Resources, 1979 to 1985

Assistant Manager of Rates, Western Resources, 1975 to 1979

Rate Engineer, Tennessee Valley Authority, 1972 to 1975

Education: Kansas State University, M.B.A., 1972

Kansas State University, B.S., 1971

Outside Activities: *Boards:*

William Jewell College Fine Arts Guild

Larry D. Irick

Executive Director, Law
Western Resources, Inc.

Business Record: Executive Director, Law, Western Resources, May 1999 to present

Counsel, Bryan Cave LLP, July 1995 to May 1999

Partner, Smith, Gill, Fisher & Butts, P.C., June 1988 to July 1995
(firm merged with Bryan Cave LLP)

Associate, Smith, Gill, Fisher & Butts, P.C., May 1982 to June 1988

Education: Duke University, J.D., 1982

Emporia State University, B.S. with honors, 1979

Outside Activities:

Boards:
William Jewell College Fine Arts Guild

Member:
Missouri Bar Association

WS030082

Peggy S. Loyd

Executive Director, Financial Services
Western Resources, Inc.

Business Record: Executive Director, Financial Services, Western Resources, 1999 to present

Director, Strategy, Western Resources, 1996 to 1999

Vice President, Marketing Service Plans, Western Resources, 1996

Director, Internal Audit, Western Resources, 1992 to 1996

Manager, Internal Audit, KGE, 1986 to 1992

Senior Auditor, KGE, 1983 to 1986

Auditor, KGE, 1981 to 1983

Assistant Auditor, KGE, 1979 to 1981

Education: Wichita State University, bachelor's degrees in Accounting and Business Administration, 1979

Shane A. Mathis

Executive Director, Risk Management
Executive Director, Gas and Liquids
Western Resources, Inc.

Business Record: Executive Director, Risk Management, Western Resources, 1998 to present

Executive Director, Gas and Liquids, Western Resources,
March 2000 to present

Director, Energy Trading, January 1998 to August 1998

Senior Strategist, 1997 to 1998

Financial Consultant, Merrill Lynch, 1995 to 1997

Education: Illinois Institute of Technology, Master of Science, Financial Markets, 1995

University of Missouri, bachelor degrees in Economics and Finance, 1992

Caroline A. Williams

Executive Director, Customer Service
Western Resources, Inc.

Business Record:
Executive Director Customer Service, 1999 to present
Director Customer Account Services, 1997 to 1999
Manager Customer Relations, 1997
Manager, Training Services, 1997
Manager Project Blueprint, 1995
Manager Walk-In Services, 1994
Manager-Customer Services-KGE, 1992 to 1994
Office Supervisor-Divisions, 1990 to 1992
Customer Billing Coordinator, 1987 to 1990

Education: Friends University, B.S., Human Resources

Outside Activities: *Boards:*
Kansas Department of Revenue Advisory Board

Member:
Madison Avenue Church of Christ

ELECTION OF OFFICERS

RESOLVED, that the following persons be, and hereby are, appointed as officers of the Company until further action by the Board of Directors.

EXECUTIVE OFFICERS:

NAME	TITLE
David C. Wittig	Chairman of the Board, President, and Chief Executive Officer
Douglas T. Lake	Executive Vice President
Carl M. Koupal, Jr.	Executive Vice President
Thomas L. Grennan	Executive Vice President
William B. Moore	Executive Vice President, Chief Financial Officer, and Treasurer
Richard D. Terrill	Executive Vice President, General Counsel and Assistant Corporate Secretary
Rita A. Sharpe	Executive Vice President

OTHER OFFICERS

Richard A. Dixon	Vice President
Douglas J. Henry	Vice President
A. Jo Hunt	Vice President
Wayne A. Kitchen	Vice President
Peggy S. Loyd	Vice President
James A. Martin	Vice President
Shane A. Mathis	Vice President
Leslie D. Morgan	Vice President
Carl A. Ricketts	Vice President
Caroline A. Williams	Vice President
Lee P. Wages	Controller
Larry D. Irick	Corporate Secretary
E. Lynn Cook	Assistant Treasurer
Elizabeth A. Nelson	Assistant Controller

CHANGE OF CONTROL
AND
EMPLOYEE RETENTION PROGRAMS

RESOLVED, that the officers of the Company be, and hereby are, authorized to enter into and implement the change of control and employee retention programs as presented to the meeting; and further

RESOLVED, that the officers of the Company be, and hereby are, authorized to take such actions as they may deem necessary or appropriate to carry out the foregoing resolution.

m

WS030090

AMENDMENT OF DEFERRED COMPENSATION PLAN

RESOLVED, that the Western Resources, Inc. Outside Directors' Deferred Compensation Plan be, and hereby is, amended and restated in the form presented to the meeting to, among other things, eliminate the phantom stock investment alternative, provide for the deferral of stock compensation, and make other corresponding changes; and further

RESOLVED, that the officers of the Company be, and hereby are, authorized to take such actions as they may deem necessary or appropriate to carry out the foregoing resolution.

RESOURCES℠
CONNECTION

Western Resources, Inc.

Executive Compensation Review

May 17, 2000

- DRAFT-

Table of Contents

Executive Summary

- Western Resources ("WR" or "the Company") once again engaged Resources Connection to conduct a review of its executive compensation program
- The approach employed in conducting the review mirrors that utilized in both 1998 and 1999
- In summary, the findings and recommendations are as follows:
  - Base Salary
    - » With the exception of Rick Terrill and Rita Sharpe who are significantly below market, no cash salary increases are recommended for the executive committee
    - » A 2% salary increase is recommended for other officers (directly aligned with that provided to nonunion employees)

Executive Summary

- Annual Incentives
  - » No changes to the structure of the program or the targeted award levels
- Long-Term Incentives
  - » Recommendations to provide awards which position the executive competitively on a total direct compensation level if performance warrants
  - » Recommended grants in the form of restricted stock for all employees to act as a retention device during the Company's volatile time
- Special Retention Bonuses
  - » One-time restricted stock awards for certain corporate executives who have not received significant salary increases or bonus payments
  - » Stock awards should have typical cliff vesting and performance hurdle structure

Overview

- Western Resources ("WR" or "the Company") is a consumer services company with interests in energy and security
- WR's management team is charged with managing (or participating in the management of) WR, Protection One, ONEOK, Paradigm and Guardian
- It is anticipated that the Company will be dividing it's operations under two separate publicly traded companies: Westar Energy (WR's two utilities) and Westar Capital (all nonelectric businesses) -- for purposes of this analysis, it was assumed that WR still functions as a single publicly traded entity over which the current executive management team is fully responsible

Compensation Philosophy

The Company's compensation philosophy continues to emphasize shareholder value creation through a pay-for-performance compensation program. More specifically, the Company's philosophy is to:

- Align base salaries with the market and provide total compensation potential above the market average
- Emphasize long-term incentives and equity programs for senior management
- Encourage employee stock ownership
- Provide incentives linked to performance throughout the organization

Current Compensation in Relation to the Market

Element	WR's Competitive Position
Base Salary	Slightly below the market
Annual Incentives	Slightly below the market
Long-term Incentives	Competitive with the market
Total Direct Compensation	Competitive with the market

As anticipated, market compensation levels once again shifted upward. Some top officers are compensated competitively with the market and others below the competitive market. Although the Company should continue to ensure internal and external equity exists, the experience level and performance of the executive committee members may justify the Company's positioning.

Peer Group Selection

- The peer group consists of companies with business operations in electricity, natural gas, telecommunications, and home security monitoring
- Data was collected from the same grouping of companies utilized in past analyses with the exception of the following companies which have been acquired:
  - New Century Energies
  - Sonat Inc.
  - KN Energy
  - Paging Network
  - Frontier Corp.
- The revised peer group consists of 22 companies with median revenues of $5.5 billion
- A listing of the peer companies is contained on the following page

Peer Group Companies

Alltel Corp.
Burns International
Central and Southwest
CINergy Corp.
Citizens Utilities Co.
CMS Energy Corp.+
Columbia Energy Group
Dominion Resources Inc.
Duke Energy Corp.
Edison International
Entergy Corp.
Nisource Inc.
Northern States Power Co.
Pacific Enterprises
Pittston Co. (Brinks)
Reliant Energy
Southern Company+
Teco Energy Corp.
Texas Utilities Co.
Utilicorp United Inc.
Valero Energy Corp.
Williams Companies

+The company has not yet filed its 1999 proxy statement.

WS030100

Base Salary

Base Salary Analysis

Salary Ranges

- Using generally accepted compensation planning principles, we determined salary ranges around the market average
- The established ranges define a reasonable range of compensation

Ratio to Market

- The ratio of salary to midpoint compares an individual's rate of pay to the market midpoint
  - a ratio greater than 1.00 indicates an above market rate
  - a ratio less than 1.00 indicates a below market rate
- WR's philosophy is to index the pay grades based on the compensation of the CEO

Peer Company CEO Base Salary Levels

- Mean $ 816,990
- Median $ 817,261
- Low $ 505,750
- High $ 935,646

Base Salary Comparison

The following table illustrates current base salary levels in comparison to the market. In order to address the Committee's concerns regarding the tightness of the salary ranges provided last year, a 70% spread, which is standard in the marketplace, has been utilized.

Executive Name	Position	WR Current Base	Current Cash Comp. *	Market Minimum	Market Midpoint	Market Maximum	Ratio of Current to Midpoint
Wittig, D.	Chairman, President, and CEO	$ 743,600	$ 408,683	$ 605,178	$ 816,990	$ 1,028,802	0.91
Lake, D.	EVP - Chief Strategic Officer	$ 427,900	$ 266,849	$ 344,133	$ 464,580	$ 585,027	0.92
Koupal, C.	EVP - Chief Administrative Officer	$ 318,240	$ 307,020	$ 287,280	$ 387,828	$ 488,376	0.82
Grennan, T.	EVP - Electric Operations	$ 241,500	$ 187,708	$ 236,379	$ 319,111	$ 401,843	0.76
Terrill, R.	EVP - General Counsel	$ 202,000	$ 180,000	$ 212,793	$ 287,271	$ 361,748	0.70
Moore, B.	EVP - CFO and Treasurer	$ 230,400	$ 203,000	$ 208,705	$ 281,752	$ 354,799	0.82
Sharpe, R.	VP - Shared Services	$ 159,820	$ 134,910	$ 152,040	$ 205,254	$ 258,468	0.78
Average							**0.84**

* This column represents the portion of the individual's base salary paid in cash as opposed to WR stock.

WS030104

Base Salary Comparison

Compensation levels for key executives outside of the executive committee were also assessed. Published survey data was utilized to determine the market values indicated in the following table.

Executive Name	Position	WR Current Base	Market Minimum	Market Midpoint	Market Maximum	Ratio of Current to Midpoint
Morgan, L.	VP - Generation Services					
Henry, D.	VP - Power Delivery					
Hunt, J.	VP - Information Technology					
Martin, J.	VP - Strategic Planning			REDACTED		
Kitchen, W.	VP - Regulatory Environment					
Ricketts, C.	VP - Investor Relations					
Wages, L.	Controller					
Average						0.89

WS030105

Recommended Base Compensation Structure

The recommended base compensation structure is detailed in the following table. Similar to the program used for non-officer exempt employees, a maximum payment level has been established for each job. These values should only be modified every two years as discussed at last year's Committee meeting.

Grade	Maximum Base for Job Grade
1	$ 875,000
2	$ 700,000
3	$ 560,000
4	$ 448,000
5	$ 359,000
6	$ 288,000
7	$ 231,000
8	$ 186,000
9	$ 150,000
10	$ 130,000

Base Salary Analysis

- Currently, change-in-control and SERP payments are calculated utilizing a formula which is derived from base salary
- The Company's compensation philosophy to hold base salaries below market and to make-up for these levels in the long-term incentive component provides a disadvantage to WR's executives
- Therefore, Resources recommends that the Company's compensation and benefits plans utilize market midpoint for executive "base salaries"; however, cash salaries should remain fixed
- The difference between the recommended and cash compensation should be paid in the form of restricted stock
- The additional restricted stock should be backed out of the long-term component so as to not be an additive element of compensation for the executives

Base Salary Analysis

- Current base salary levels and the recommended grade placements are indicated in the table on the following page for WR's key executives
- Additionally, the recommended salary level and percentage increase for each executive has been indicated
  - A salary increase has been recommended for only two executive committee members, Rick Terrill and Rita Sharpe -- the increase is recommended to account for their significantly below market base compensation level
  - Increases are not recommended for other executive committee members in light of the Company's stock price performance
  - Recommendations to increase other key executive base salary levels by 2% have been provided in alignment with the recommended levels provided to WR's nonexempt employee ranks

Recommended Base Salary Levels

Executive Name	Position	Current Grade	WR Current Base	Recom. Grade	Recom. Total Base	Recom. Cash Base	Percentage Increase
Wittig, D.	Chairman, President, and CEO	1	$ 743,600	1	$ 816,990	$ 743,600	0.0%
Lake, D.	EVP - Chief Strategic Officer	4	$ 427,900	3	$ 464,580	$ 427,900	0.0%
Koupal, C.	EVP - Chief Administrative Officer	5	$ 318,240	5	$ 387,828	$ 318,240	0.0%
Grennan, T.	EVP - Electric Operations	6	$ 241,500	6	$ 319,111	$ 241,500	0.0%
Terrill, R.	EVP - General Counsel	7	$ 202,000	6	$ 287,271	$ 230,400	14.1%
Moore, B.	EVP - CFO and Treasurer	6	$ 230,400	6	$ 281,752	$ 230,400	0.0%
Sharpe, R.	VP - Shared Services	8	$ 159,820	7	$ 205,254	$ 182,350	14.1%

Henry, D.	VP - Power Delivery
Morgan, L.	VP - Generation Services
Hunt, J.	VP - Information Technology
Martin, J.	VP - Strategic Planning
Kitchen, W.	VP - Regulatory Environment
Ricketts, C.	VP - Investor Relations
Wages, L.	Controller

REDACTED

WS030109

Annual Incentives

Allocation of the Annual Incentive Award to Performance Criteria

The following illustrates the current annual incentive allocation schedules for Western Resources' Senior Officers.

Corporate Allocation Schedule

Grade	EPS	Stock Price Appreciation	Discretionary
1 - 7	40%	40%	20%
8	35%	35%	30%
9 - 11	30%	30%	40%
A - C	25%	25%	50%

Current Annual Incentive Payout Levels

The following details the current annual incentive opportunity for the executive committee of Western Resources. It is important to note that the following values are targeted award levels and not those paid. Actual bonuses paid in years 1998 and 1999 are provided on the following page.

Executive Name	Position	WR Current Base	Current Annual Incentive Targeted Awards (%)	Current Annual Incentive Targeted Awards ($'s)	Targeted Total Cash
Wittig, D.	Chairman, President, and CEO	$ 743,600	90%	$ 669,240	$ 1,412,840
Lake, D.	EVP - Chief Strategic Officer	$ 427,900	80%	$ 342,320	$ 770,220
Koupal, C.	EVP - Chief Administrative Officer	$ 318,240	80%	$ 254,592	$ 572,832
Grennan, T.	EVP - Electric Operations	$ 241,500	70%	$ 169,050	$ 410,550
Terrill, R.	EVP - General Counsel	$ 202,000	70%	$ 141,400	$ 343,400
Moore, B.	EVP - CFO and Treasurer	$ 230,400	70%	$ 161,280	$ 391,680
Sharpe, R.	VP - Shared Services	$ 159,820	50%	$ 79,910	$ 239,730

These annual incentive awards do not reflect the program outlined and approved by the committee in January 1999, which dealt with extraordinary gains. It is expected that the Company may have gains in 2000 which would qualify -- after being offset by the 1999 losses. This will be addressed by the committee in January 2001.

Annual Incentives

- Utilizing data collected from peer company proxy statements combined with published survey data, Resources determined market competitive targeted annual incentive award levels
- Targeted award levels will only be obtained if targeted performance levels are met
- The following table details market total cash levels (base salary plus targeted annual incentive award) and a ratio of WR's current total cash to the market

Executive Name	Position	Market Base	Market Annual Incentive Targeted Awards (%)	Market Annual Incentive Targeted Awards ($'s)	Market Total Cash	Ratio to Market
Wittig, D.	Chairman, President, and CEO	$ 816,990	80%	$ 653,592	$ 1,470,582	0.96
Lake, D.	EVP - Chief Strategic Officer	$ 464,580	70%	$ 325,206	$ 789,786	0.98
Koupal, C.	EVP - Chief Administrative Officer	$ 387,828	60%	$ 232,697	$ 620,525	0.92
Grennan, T.	EVP - Electric Operations	$ 319,111	60%	$ 191,467	$ 510,578	0.80
Terrill, R.	EVP - General Counsel	$ 287,271	60%	$ 172,363	$ 459,634	0.75
Moore, B.	EVP - CFO and Treasurer	$ 281,752	60%	$ 169,051	$ 450,803	0.87
Sharpe, R.	VP - Shared Services	$ 205,254	50%	$ 102,627	$ 307,881	0.78
Average						0.90

WS030113

Recommended Annual Incentive Awards

- Targeted annual incentive award opportunities have been assessed and no recommendations were made for increases in light of Company performance
- Without modifications, incentive percentages are slightly higher than market levels which assists in accounting for below market base salary levels
- Although the Company gains competitive positioning on total cash in relation to base salary, overall total cash levels remain slightly below market

Executive Name	Position	Recom. Base Salary	Recommended Annual Incentive Opportunity (%)	Recommended Annual Incentive Opportunity ($'s)	Recom. Targeted Total Cash	Market Total Cash	Ratio to Market
Willig, D.	Chairman, President, and CEO	$743,600	90%	$ 669,240	$ 1,412,840	$1,470,582	0.96
Lake, D.	EVP - Chief Strategic Officer	$427,900	80%	$ 342,320	$ 770,220	$ 789,786	0.98
Koupal, C.	EVP - Chief Administrative Officer	$318,240	80%	$ 254,592	$ 572,832	$ 620,525	0.92
Grennan, T.	EVP - Electric Operations	$241,500	70%	$ 169,050	$ 410,550	$ 510,578	0.80
Terrill, R.	EVP - General Counsel	$230,400	70%	$ 161,280	$ 391,680	$ 459,634	0.85
Moore, B.	EVP - CFO and Treasurer	$230,400	70%	$ 161,280	$ 391,680	$ 450,803	0.87
Sharpe, R.	VP - Shared Services	$182,350	70%	$ 127,645	$ 309,995	$ 307,881	1.01
Average							0.92

WS030114

Annual Incentives
Competitive Payout Levels

- Published survey data, peer company review, and our experience in the design of annual incentive plans were used to determine targeted incentives as a percentage of base salary for employees below the executive committee level
- The recommendations, which account for both corporate and business unit employees, are detailed in the following table

Salary Grade	Recom. Target
1 – 2	90%
3 – 5	80%
6 - 7	70%
8	50%
9 – 11	35%
A - C	15%

Long-Term Incentives

Long-term Incentives

- Both restricted stock awards (RSAs) and stock options with dividend equivalent rights (DERs) have comprised the Company's long-term incentive awards in years 1998 and 1999
- Resources recommends that the Company solely utilize RSAs to comprise the 2000 long-term incentive awards
  - The Company's recent stock price volatility has left the Company at risk from an attraction and retention standpoint
  - RSAs (with stock price performance hurdles) will ensure a strong link between employees and shareholders
- Although RSAs will provide the Company with a significant advantage in motivating and retaining employees, it is important for the Company to balance this cost with the cost of granting RSAs (the value of the award on the date of grant must be recognized as a compensation expense in the Company's financial statements -- the expense is accrued over the award vesting period or nine years)

Long-term Incentives

Cost of RSAs vs. Stock Options/DERs

- Assume an employee is targeted to receive a $100,000 targeted gain opportunity in the form of long-term incentives

– Recommended # of Stock Options/DERs	12,136
– Accounting Cost of the Stock Options	$ 0
– Accounting Cost of the DERs (based on 7 year accrual)	$ 101,942
– **Total Accounting Cost of the Options/DERs**	**$ 101,942**
– Recommended # of RSAs	5,006
– Accounting Cost of the RSAs	$ 79,474
– Accounting Cost of the Dividends (based on 4 year accrual)	$ 24,030
– **Total Accounting Cost of the RSAs**	**$ 103,504**

WS030118

Long-term Incentives

- The following table illustrates the targeted award value of the Company's 1999 awards in comparison to market competitive long-term awards for 2000

Executive Name	Position	WR 1999 LTI	Market Base	Market Targeted LTI Opportunity (%)	Market Targeted LTI Opportunity ($'s)	Ratio to Market
Wittig, D.	Chairman, President, and CEO	$ 3,346,200	$ 816,990	375%	$ 3,063,713	1.09
Lake, D.	EVP - Chief Strategic Officer	$ 1,680,000	$ 464,580	325%	$ 1,509,885	1.11
Koupal, C.	EVP - Chief Administrative Officer	$ 1,034,280	$ 387,828	275%	$ 1,066,527	0.97
Grennan, T.	EVP - Electric Operations	$ 864,500	$ 319,111	250%	$ 797,778	1.08
Terrill, R.	EVP - General Counsel	$ 748,800	$ 287,271	275%	$ 789,995	0.95
Moore, B.	EVP - CFO and Treasurer	$ 656,500	$ 281,752	275%	$ 774,818	0.85
Sharpe, R.	VP - Shared Services	$ 166,460	$ 205,254	200%	$ 410,508	0.41
Average						1.01

WS030119

Long-term Incentives

- The previous table indicates that overall, the Company's 1999 long-term incentive awards are above market for certain individuals; however, it is important to note that the Company's philosophy is to provide above market long-term incentives to account for below market total cash compensation levels
- When determining recommendations for year 2000, the Company's philosophy was once again utilized to ensure that the total direct compensation opportunity for the executive team is at to slightly above market levels

Form of Long-Term Incentives

- Resources recommends that the structure of the Company's long-term incentive awards be as follows:
  - RSAs granted to employees in grades 1 - C should vest upon the earlier of the 9th anniversary of the date of grant or the date in which the stock price remains at or above 120% of the grant price but no earlier than the fourth anniversary of the date of grant
  - RSAs granted to employees in grades D - I and nonexempt employees should vest on the fourth anniversary of the date of grant -- we recommend that the awards provided to this group of employees not be based on the additional performance hurdle so as to change their perception of stock awards to one that perceives them of value

Recommended Targeted LTI Award Levels

- As indicated previously, long-term incentive award targets have been established at slightly above market levels to account for below market total cash opportunities
- The recommended percentages indicated in the following table are intended to provide fully qualified and tenured executives a targeted total direct compensation level between 100% and 110% of the market

Executive Name	Position	Market Targeted LTI Value	Recom. Base Salary	Recomended Targeted LTI Opportunity (%)	Recomended Targeted LTI Opportunity ($'s)	Ratio of Recom. to Market
Wittig, D.	Chairman, President, and CEO	$ 3,063,713	$ 743,600	450%	$ 3,346,200	1.09
Lake, D.	EVP - Chief Strategic Officer	$ 1,509,885	$ 427,900	375%	$ 1,604,625	1.06
Koupal, C.	EVP - Chief Administrative Officer	$ 1,066,527	$ 318,240	350%	$ 1,113,840	1.04
Grennan, T.	EVP - Electric Operations	$ 797,778	$ 241,500	300%	$ 724,500	0.91
Terrill, R.	EVP - General Counsel	$ 789,995	$ 230,400	350%	$ 806,400	1.02
Moore, B.	EVP - CFO and Treasurer	$ 774,818	$ 230,400	350%	$ 806,400	1.04
Sharpe, R.	VP - Shared Services	$ 410,508	$ 182,350	225%	$ 410,288	1.00
Average						1.05

Recommended LTI Awards

- Long-term incentive modeling was conducted to determine the number of awards to grant each executive in order to provide a competitive long-term incentive opportunity
- To account for the Board's approval of grants which were made in January 2000, the value of those awards was subtracted from each executive's targeted LTI value
- The remaining value was allocated to restricted stock awards -- the greater emphasis on RSA is recommended to strengthen handcuffs on the executive team since the Company's retentional capabilities have been weakened in light of underwater stock options
- The table on the following page indicates the recommended number of awards based on the above assumptions as well as the targeted award levels provided on page 29

Number of RSAs to Award

LTI Model

Assumptions:

Stock price on the date of grant	$	15.875
Annual Dividend	$	1.20
RSA Dividend Value	$	4.10

Executive Name	Recom. Base Salary	Gain Objective		Value of Jan. 2000 Awards	Gain Obj. Less Jan. Awards	Recom. # of RSAs
		As % of Base	Dollar Amount			
Wittig, D.	$ 743,600	450%	$ 3,346,200	$ 2,772,095	$ 574,105	28,700
Lake, D.	$ 427,900	375%	$ 1,604,625	$ 1,393,830	$ 210,795	10,600
Koupal, C.	$ 318,240	350%	$ 1,113,840	$ 887,430	$ 226,410	11,300
Grennan, T.	$ 241,500	300%	$ 724,500	$ 676,020	$ 48,480	2,400
Terrill, R.	$ 230,400	350%	$ 806,400	$ 574,289	$ 232,111	11,600
Moore, B.	$ 230,400	350%	$ 806,400	$ 654,510	$ 151,890	7,600
Sharpe, R.	$ 182,350	225%	$ 410,288	$ -	$ 410,288	20,500

Total **92,700**

Long-Term Incentives

- Similar to previous analyses, published survey data was utilized to determine competitive option award levels for individuals below the executive committee level
- For the employee groups below the executive committee level, Resources recommends that the Company also consider granting RSAs -- this would position the Company to better attract and retain rank and file employees
- The recommended number of restricted stock awards to grant to incumbents within the specified salary grades is designated in the table on the following page

RSA Grants to Employees Below the Executive Committee Level

Salary Grade	Recom. # of RSAs
8	6,000
9	5,000
10	3,800
A	1,300
B	1,000
C	630
D	300
DD	250
E	165
F	130
G	100
H	80
I	65
Nonexempt	50

Total Direct Compensation

Total Direct Compensation Conclusion

- Total direct compensation levels are slightly below the competitive market
- Summary Recommendations:
  - Base salary - no EC adjustments with the exception of Rick Terrill and Rita Sharpe; 2% adjustment for other executives
  - Annual incentive awards - maintain current targeted award levels
  - Long-term incentives - implement the recommended targeted gain opportunities which are slightly above market
  - Total direct compensation - target the total compensation package to be slightly above the competitive market to account for below market cash compensation opportunities

Current Total Direct Compensation

- The table below illustrates Western Resources' current total direct compensation (base salary and annual and long-term incentives).

		Current				
Executive Name	Position	Base Salary	Targeted AI	Targeted LTI	Targeted TDC	Ratio of Current to Market
Wittig, D.	Chairman, President, and CEO	$ 743,600	$ 669,240	$ 3,346,200	$ 4,759,040	1.05
Lake, D.	EVP - Chief Strategic Officer	$ 427,900	$ 342,320	$ 1,680,000	$ 2,450,220	1.07
Koupal, C.	EVP - Chief Administrative Officer	$ 318,240	$ 254,592	$ 1,034,280	$ 1,607,112	0.95
Grennan, T.	EVP - Electric Operations	$ 241,500	$ 169,050	$ 864,500	$ 1,275,050	0.97
Terrill, R.	EVP - General Counsel	$ 202,000	$ 141,400	$ 748,800	$ 1,092,200	0.87
Moore, B.	EVP - CFO and Treasurer	$ 230,400	$ 161,280	$ 656,500	$ 1,048,180	0.86
Sharpe, R.	VP - Shared Services	$ 159,820	$ 79,910	$ 166,460	$ 406,190	0.57
Average						**0.97**

WS030129

Market Total Direct Compensation

- The table below illustrates the average market's total direct compensation (base salary plus annual incentives plus long-term incentives).

		Market			
Executive Name	Position	Base Salary	Annual Incentives	Long-Term Incentives	Total Direct Compensation
Wittig, D.	Chairman, President, and CEO	$816,990	$ 653,592	$ 3,063,713	$ 4,534,295
Lake, D.	EVP - Chief Strategic Officer	$464,580	$ 325,206	$ 1,509,885	$ 2,299,671
Koupal, C.	EVP - Chief Administrative Officer	$387,828	$ 232,697	$ 1,066,527	$ 1,687,052
Grennan, T.	EVP - Electric Operations	$319,111	$ 191,467	$ 797,778	$ 1,308,355
Terrill, R.	EVP - General Counsel	$287,271	$ 172,363	$ 789,995	$ 1,249,629
Moore, B.	EVP - CFO and Treasurer	$281,752	$ 169,051	$ 774,818	$ 1,225,621
Sharpe, R.	VP - Shared Services	$205,254	$ 102,627	$ 410,508	$ 718,389

WS030130

Recommended Total Direct Compensation

- The table below illustrates the recommended total direct compensation levels for WR's executive officers

Executive Name	Position	Recommended Base Salary	Recommended Targeted AI	Recommended Targeted LTI	Recommended Targeted TDC	Ratio of Recom. to Market
Wittig, D.	Chairman, President, and CEO	$ 743,600	$ 669,240	$3,346,200	$ 4,759,040	1.05
Lake, D.	EVP - Chief Strategic Officer	$ 427,900	$ 342,320	$1,604,625	$ 2,374,845	1.03
Koupal, C.	EVP - Chief Administrative Officer	$ 318,240	$ 254,592	$1,113,840	$ 1,686,672	1.00
Grennan, T.	EVP - Electric Operations	$ 241,500	$ 169,050	$ 724,500	$ 1,135,050	0.87
Terrill, R.	EVP - General Counsel	$ 230,400	$ 161,280	$ 806,400	$ 1,198,080	0.96
Moore, B.	EVP - CFO and Treasurer	$ 230,400	$ 161,280	$ 806,400	$ 1,198,080	0.98
Sharpe, R.	VP - Shared Services	$ 182,350	$ 127,645	$ 410,288	$ 720,283	1.00
Average						1.00

- Overall, total direct compensation levels are targeted at market levels; however, some executives are above and others below market
- It is important to note that the achievement of these compensation levels is highly dependent upon Company performance

WS030131

One-Time Stock Bonus Awards

One-Time Stock Bonus Awards

- In the past two years, key corporate executives have received minimal salary increases and little to no bonus awards
- Business unit employees, however, have received significant bonuses due to the variation in bonus pool funding between corporate and business unit
- The above coupled with the efforts put forth by corporate executives in light of the KCP&L deal, Protection One's financial difficulties, and the pending reorganization of the Company have prompted the CEO to recommend to the Board one-time stock bonus awards for key executives
- The purpose of the awards is to recognize past efforts and also to retain executives through the Company's turnaround

One-Time Stock Bonus Awards

- The following table illustrates the CEO's recommended number of RSAs for certain key executives

Executive Name	Position	Recom. # of RSAs
Wittig, D.	Chairman, President, and CEO	0
Lake, D.	EVP - Chief Strategic Officer	12,000
Koupal, C.	EVP - Chief Administrative Officer	10,000
Grennan, T.	EVP - Electric Operations	0
Terrill, R.	EVP - General Counsel	10,000
Moore, B.	EVP - CFO and Treasurer	0
Sharpe, R.	VP - Shared Services	0
Hunt, J.	VP - Information Technology	REDACTED
Martin, J.	VP - Strategic Planning	
Ricketts, C.	VP - Investor Relations	

WS030134

One-Time Stock Bonus Awards

- Resources recommends that the RSA grants outlined on the previous page have similar provisions as to the executive long-term incentive awards
  - RSAs should vest upon the earlier of the 9th anniversary of the date of grant or the date in which the stock price remains at or above 120% of the grant price but no earlier than the fourth anniversary of the date of grant

RESOURCES℠
CONNECTION

Western Resources, Inc.

Human Resources Concerns in Relation to the Potential Exchange Offer

May 17, 2000

- DRAFT-

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Considerations for the Committee Based on a Potential Merger for the Utility

Overview

- In light of the Company's vulnerability to a potential transaction, Resources Connection ("Resources") recommends that Western Resources, Inc. ("WR") assess its employee protection and retention programs at this time
- Because of the significant amount of time that passes between the announcement of the sale and the finalization of the sale, the ability to retain key employees to continue the operations of the company can be a struggle for many organizations
- Having the right programs in place to retain employees during this period can significantly smooth the transition process
- For these reasons, Resources recommends that the Committee give consideration to implementing the following two proposals

Employee Plans

- As has been discussed with the HR Committee over the past several years, Resources believes providing executives change-in-control protection is competitive
- Additionally, it is not uncommon to provide a general severance plan under which employees at all levels are protected against termination without cause in relation to a change-in-control (tin parachute)
- As the Company enters the upcoming period of uncertainty, Resources believes that it is highly important that this issue be addressed at this point in time
- The following details the recommended provisions for consideration by the HR Committee

Employee Plans

- Term of Agreement (by organizational level)
  - Executive Committee
    - » Enter into employment agreements that contain change-in-control provisions with each member of the executive committee
    - » Three year contracts with one year evergreen
    - » The evergreen continually renews the contract for an additional year upon the anniversary of the agreement unless the executive or the Company designates otherwise
  - Other Officers
    - » Maintain existing format for change-in-control protection
  - All Other Employees
    - » Two year plan document that can be renewed at the discretion of the Board with provision that once a transaction is announced, the plan cannot be terminated

Employee Plans

- Triggering of Payout (by organizational level)
  - Executive Committee
    - » Resources recommends that the Company consider a modified single trigger (i.e., voluntary termination by the executive within the seventh month following the CIC) for this group
    - » A modified single trigger ensures employees assist in the transition and then also enables the executive to negotiate a new contract with the acquiring company in exchange for this agreement
  - Other Officers
    - » A double trigger (the executive either voluntary terminates for "good reason" or is involuntarily terminated "without cause" within a two year window period following a CIC) would be competitive for this next tier of executives
    - » This provision only requires an acquiror to make CIC payments if the executive's services are terminated or his/her position modified

Employee Plans

- Triggering of Payout (continued)
  - All Other Employees
    - » A double trigger would also be competitive for this group of employees
    - » The window period should be shortened to one and half years for employees in grades C and above and a one year window period for employees in grades D and below
    - » The triggering event under this provision should only be "termination without cause" by the Company or "termination for good reason" by the employee following a change-in-control
      - Good reason includes:
        - reduction in salary by more than 10%
        - significant change in benefits for an individual
        - relocation of more than 75 miles

WS030143

Employee Plans

- Payout Multiple
  - Executive Committee - 2.99 times the base amount which is defined as cash compensation plus the greater of (i) the highest bonus paid in the prior five year period or (ii) current targeted incentive award level
    - » For all employees, base salary deferred into Company stock and deferred compensation should be assumed to be "base salary" for purposes of the change-in-control payout calculations
  - Other Officers - 2.00 times the base amount which is defined as cash compensation plus the greater of (i) the highest bonus paid in the prior five year period or (ii) current targeted incentive award level
  - All Other Employees
    - » Grades A - C - three weeks pay for each year of service plus one times the highest bonus paid in prior five years (minimum of eight weeks pay and a maximum of 52 weeks)
    - » Grades D and below - two weeks pay for each year of service completed with a minimum of four weeks pay and a maximum of 52 weeks

Employee Plans

- Long-Term Incentives
  - all outstanding long-term incentive awards should immediately vest and become payable upon a CIC

Employee Plans

- Benefits
  - In addition to cash payments, Resources recommends that the following benefits be considered under the agreements
    - » Executive Committee
      - continuation of health and welfare benefits for three years
      - payout of pension benefits (i.e., three additional years under the pension plan and fully vest the SERP)
      - payment for outplacement services
      - payment of financial counseling services
      - relocation assistance that provides for the Company to purchase the home at appraised value
    - » Other Officers
      - continuation of health and welfare benefits for two years
      - payout of pension benefits (i.e., two additional years under the pension plan and fully vest the SERP)
      - payment for outplacement services
    - » All Other Employees
      - continuation of health and welfare benefits for the period covered by the employee's severance pay
      - payment of outplacement services for employees in grades C and above

Employee Plans

- Tax Gross-Up
  - If change of control payments made to an employee who is a "disqualified individual" exceeds three times the executive's average W2 compensation over the prior 5 years (base amount), then the amount of the payment that exceeds the base amount is subject to a 20% excise tax -- in addition, the company loses its ability to take a tax deduction for that amount
  - Resources recommends that a tax gross-up provision for excise taxes be provided in the agreements for executive committee members
  - A tax gross-up provision will reduce the tax impact on an executive's payout; however, the cost can be minimized by the Company through the consideration of alternative compensation arrangements such as:
    - » consulting agreements
    - » noncompetes

Employee Plans

- Due to difficulties being experienced in the retention of IT employees, Resources recommends that WR consider CIC provisions outside of those recommended for the general employee population -- these additional benefits may be necessary to retain this critical group
- In addition to implementing agreements with the previously outlined provisions, Resources recommends that the Company reassess all of its compensation and benefits programs to ensure consistency in the definition of a change-in-control
- Currently, the plan definitions vary which may cause the payout or lack of payout under certain plans in various events

Stock Options and DERs

- Currently, outstanding stock options are underwater and therefore lack the ability to encourage employees to remain with the Company during the transition period
- In order to incent employees to stay with the organization, the Company should consider exchanging underwater stock options for an equity vehicle with retentional capabilities
- As opposed to a traditional repricing which would require the Company to make a proxy disclosure and to recognize a variable accounting expense for the renewed options, WR should consider granting RSAs in exchange for the underwater options
- The RSAs should have a vesting schedule similar to the original option -- 33% of the awards vest on each of the first three anniversaries of the date of grant -- the vesting schedule should restart on the date of grant

Stock Options and DERs

- RSAs are favorable to stock options for the following reasons:
  - RSAs will always have value thus never losing their retentional capability
  - The accounting expense for a RSA is fixed at the date of grant -- options that are granted in a repricing situation must be expensed based on appreciation in the award on a quarterly basis and therefore is uncapped and not able to be budgeted
  - RSAs are perceived to be more valuable by employees
  - It takes fewer shares of RSA to target the same award value thus creating a lesser strain on the shares available for employee awards in the future

Stock Options and DERs

- A formulaic exchange is a logical, easy to communicate methodology that is typically accepted by employees and shareholders
- It is common practice to utilize an exchange formula based on the Black-Scholes option valuation methodology
- Under this approach, the Company calculates the "value" in the underwater stock option -- the total "value" held by the employee is then exchanged for an award of equal value
- Although many factors impact the exchange ratio, Resources calculations indicate that a maximum of one RSA for every three options would result

Stock Options and DERs

- It is important to note that RSAs have a charge to earnings that must be amortized over the vesting period -- the earnings impact is based on the fair market value of the award on the date of grant
- However, the DERs attached to currently outstanding options also have a recognized accounting expense -- WR currently accrues the expense associated with the DER annually
- A review of the current DER expenses indicates that the expenses of that program can be reversed and that the expense of the RSA grant would be less than that currently incurred by the Company. We have consulted with Arthur Andersen on this matter and they concur with this accounting approach.
- Current calculations indicate that the Company could recognize a cost savings in excess of $1 million

Stock Options and DERs

- Lastly, the Company must be cognizant of recent accounting rules which require that a company recognize an accounting expense for options granted within six months of an option cancellation -- therefore, no additional options should be granted until six months after the cancellation date

Human Resources Issues to be Addressed Based on the Potential Split of the Company

Overview

- It is our understanding that WR intends on conducting an exchange offer which would split the Company into two separate corporate entities by year end 2000
- The exchange offer will result in two companies each with a separate publicly-traded stock
  - Westar Energy
  - Westar Capital
- Westar Energy will consist of KGE and KPL, WR's two electric utilities
- Westar Capital will consist of all of WR's non-utility operations, including the Company's 85 percent interest in Protection One

Overview

- In light of the Company's restructuring, many compensation programs currently in place will need to be addressed including the following:
  - Restricted Stock Awards
  - Supplemental Executive Retirement Program (SERP)
  - Compensation Deferred into Company Stock
  - Split Dollar Life Insurance
- The following addresses alternatives for consideration by the Board for each of the above programs, including the advantages and disadvantages of the alternative

Restricted Shares

- Similar to the options/DERs, the Committee has the wherewithal to determine the treatment of restricted stock awards upon the restructuring
- Two alternatives have been proposed for the Committee's consideration
  - exchange the RSAs for RSAs in the new companies similar to the approach with stock options
  - accelerate the restricted shares so that they are vested -- under this approach a retentional device will need to be included for the vested awards in order to not hamper the Company's handcuff

Restricted Shares

<u>Alternative #1</u>

Cancel existing RSAs in exchange for RSAs in the new companies

- Advantages
  - Employees are kept whole from their perspective
  - RSA is an effective retention device
  - Aligns employee interests with those of shareholders
  - Cost previously recognized by the Company for the RSA is reversed
- Disadvantages
  - RSA has a charge to earnings equal to the fair market value of the award on the date of grant
  - A premium on the value of current holdings may be required to incent employees to agree to the exchange -- this could add an additional cost to the company

Restricted Shares

Alternative #1 (continued)

- Summary
  - This alternative is both fair to the company and to the employee -- the company is not required to incur an additional cost (unless a premium is necessary) and the employee is kept whole
  - The new award will serve as an effective handcuff
  - Shareholders will perceive that their interests are aligned with employees

Restricted Shares

<u>Alternative #2</u>

Accelerate the vesting of outstanding restricted shares -- include a "handcuff" for those vested shares to eliminate turnover upon recognition of gains from the awards

- Advantages
  - Employees are rewarded for their efforts in completing the exchange offer
  - Allows employees to participate in the exchange offer as shareholders
- Disadvantages
  - The Company's charge to earnings is accelerated
  - Loss of retention unless an additional handcuff is added to the award structure

Restricted Shares

Alternative #2 (continued)

- Summary
  - In order to be fair to both the Company and the employee, Resources recommends that a combination of Alternatives #1 and #2 be considered as follows:
    - » Accelerate one-year of vesting on outstanding awards
    - » Convert unvested awards into RSAs in the company in which the employee is performing services
  - The one year acceleration rewards employees for their efforts in the completion of the transaction without eliminating the handcuff
  - The conversion feature then ties employees to the interest of shareholders in the company for which they are performing services

Supplemental Executive Retirement Program

- Under the Executive Salary Continuation Plan, funding is required upon the occurrence of various change-in-control related events
- Some executives will be going with Westar Capital upon the offering and thus are essentially being terminated by WR (Westar Energy) in relation to a CIC -- thus funding of the plan would be required
- In order to maintain internal equity, Resources recommends that all executives be treated as if a termination upon a CIC occurred; however, consideration should be given to providing handcuffs through the plan to support retention
- It has been proposed that the SERP be fully vested at the time of the split but that payment be withheld for the earlier of five years of service or age 50 prior to an executive being able to draw under the SERP

Supplemental Executive Retirement Program

- The accounting impact of the acceleration would be an acceleration of the accrued compensation amount -- essentially, the total dollars would be the same however the cost would be recognized more quickly
- Although the award would vest under the proposal, Resources recommends that if the executive were to be terminated for cause or if the employee terminates employment without good reason -- prior to the third anniversary of the transaction -- the individual would be entitled only to the vested portion of the award
- Resources perceives that the above treatment of the program is the most effective at minimizing the cost and adhering to the commitment made to employees

Stock for Compensation

- Stock compensation which has been issued to employees in exchange for cash compensation is currently held in a Rabbi Trust
- Resources recommends that the Company consider treating the employees holdings in one of the two following ways:
  - Allow the employee to choose the conversion of the stock into either Westar Capital or Westar Energy
  - Convert the stock into company stock for which the employee performs services

Stock for Compensation

<u>**Alternative #1**</u>

Allow the employee to choose the conversion of the stock into either Westar Capital or Westar Energy

- Advantages
  - Directly aligns the treatment of employees with how shareholders will be treated in the offering
- Disadvantages
  - Does not tie the employee to stock price performance in the entity under which they are employed

Stock for Compensation

<u>Alternative #2</u>

Convert the stock into the company stock for which the employee performs services

- Advantages
  - Ensures employees interests are further tied to stock price performance
- Disadvantages
  - Employees are not treated as "shareholders" at the time of the offering -- this could be perceived negatively by employees

Split Dollar

- WR executives currently have a split dollar program which was utilized as the deferral mechanism for bonuses earned in 1997
- Under the 1997 incentive formula, bonus payments were significantly higher than targeted levels and the executives agreed to defer monies earned
- Under the program design, executives have the ability to sell the policy back to the Company after a three year holding requirement in exchange for a cash payout; however, the value of the split dollar policy floats in accordance with WR's stock price
- Because of the tie to WR's stock price, this program also needs to be addressed in light of the Company's potential exchange offer stock price and the fact that the right to sell the proceeds vests in January 2001

Split Dollar

FORM OF PAYOUT

- Resources recommends that the executive be given the opportunity to choose the form of payout; however, the value of the payout should be dependent upon the payment method chosen
- The Company's ability to further tie an individual's compensation to stock price performance would be perceived favorably by shareholders and therefore we recommend that executives are incented to choose this form of payment

LEVEL OF PAYOUT

- Encourage stock payout to the executive based on an enhanced value potential -- this incents the executive to elect to receive the payment in the form of stock which further ties the executive's interest to those of shareholders