KGEN POWER CORPORATION

Report to Shareholders

for

Quarter Ended December 31, 2011

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PART I—FINANCIAL INFORMATION

Number 1. Unaudited Condensed Consolidated Financial Statements and Notes

KGen Power Corporation

Condensed Consolidated Balance Sheets

(in thousands, except per share amounts)

(unaudited)

	December 31, 2011	June 30, 2011
Assets		
Current assets:		
Cash and cash equivalents	**$ 91,986**	$ 89,442
Restricted cash and cash equivalents	**43,384**	43,384
Restricted cash in escrow	**79,689**	—
Short-term investments	**—**	4,005
Accounts receivable	**—**	994
Prepaid expenses and other current assets	**1,067**	6,731
Assets held for sale	**255,888**	254,901
Total current assets	**472,014**	399,457
Property, plant, and equipment	**3,488**	3,488
Less: accumulated depreciation	**2,804**	2,498
Net property, plant, and equipment	**684**	990
Restricted cash in escrow	**—**	79,688
Other noncurrent assets	**4,925**	688
Total assets	**$ 477,623**	$ 480,823
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable and accrued liabilities	**$ 1,880**	$ 2,571
Liabilities associated with assets held for sale	**24,003**	20,179
Total current liabilities	**25,883**	22,750
Other noncurrent liabilities	**10**	13
Commitments and contingencies (Note 4)		
Stockholders' equity:		
Common stock (par value $.01; 150,000 shares authorized; 56,112 shares issued and outstanding at both December 31, 2011 and June 30, 2011)	**561**	561
Additional paid in capital	**463,503**	463,295
Accumulated deficit	**(12,334)**	(5,796)
Total stockholders' equity	**451,730**	458,060
Total liabilities and stockholders' equity	**$ 477,623**	$ 480,823

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

KGen Power Corporation

Condensed Consolidated Statements of Operations

(in thousands, except per share amounts)

(unaudited)

	For the Three Months Ended December 31, 2011	For the Three Months Ended December 31, 2010	For the Six Months Ended December 31, 2011	For the Six Months Ended December 31, 2010
Revenues:				
Energy sales	**$ 6,019**	$ 11,440	**$ 39,266**	$ 54,363
Capacity sales	**248**	609	**6,837**	3,409
Total revenues	**6,267**	12,049	**46,103**	57,772
Operating expenses:				
Cost of fuel	**5,005**	9,702	**34,279**	44,899
Operating and maintenance	**4,251**	4,161	**7,494**	8,179
Gas transportation	**2,411**	245	**5,479**	2,383
Selling, general, and administrative	**2,193**	2,997	**4,724**	5,700
Depreciation	**152**	2,588	**306**	5,185
Auxiliary power	**637**	599	**1,591**	1,515
Insurance	**461**	383	**952**	776
Total operating expenses	**15,110**	20,675	**54,825**	68,637
Operating loss	**(8,843)**	(8,626)	**(8,722)**	(10,865)
Other expenses:				
Interest expense	**—**	(1,805)	**—**	(4,591)
Taxes, other than income taxes	**(712)**	(379)	**(2,014)**	(1,084)
Other	**(63)**	(33)	**(103)**	(73)
Total other expenses	**(775)**	(2,217)	**(2,117)**	(5,748)
Net loss from continuing operations before taxes	**(9,618)**	(10,843)	**(10,839)**	(16,613)
Income tax benefit from continuing operations	**3,727**	—	**4,301**	27,745
Net (loss) income from continuing operations after taxes	**(5,891)**	(10,843)	**(6,538)**	11,132
Net (loss) income from discontinued operations, net of taxes	**—**	(11,609)	**—**	51,527
Net (loss) income	**$ (5,891)**	$ (22,452)	**$ (6,538)**	$ 62,659
Net earnings (loss) per share – basic and diluted				
Continuing operations	**(0.10)**	(0.19)	**(0.12)**	0.20
Discontinued operations	**—**	(0.21)	**—**	0.92
Total	**$ (0.10)**	$ (0.40)	**$ (0.12)**	$ 1.12
Weighted average shares outstanding—basic	**56,122**	56,017	**56,122**	55,997
Weighted average shares outstanding—diluted	**56,122**	56,017	**56,122**	56,089

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

KGen Power Corporation

Condensed Consolidated Statements of Cash Flows

(in thousands)

(unaudited)

	For the Six Months Ended December 31, 2011	For the Six Months Ended December 31, 2010
Cash flows from operating activities		
Net (loss) income	$ (6,538)	$ 62,659
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Net gain on sale of assets	—	(64,991)
Depreciation	306	11,098
Amortization of deferred financing fees	—	448
Amortization of contract-based intangibles	—	4,683
Valuation of derivative instruments	—	1,008
Stock-based compensation	208	826
Income on investment in restricted cash in escrow	(1)	—
Payments from settlement of derivative instruments	—	(2,402)
Changes in operating assets and liabilities:		
Accounts receivable	4,,994	18,343
Spare parts inventories	(93)	(1,504)
Prepaid expenses and other current assets	5,664	1,166
Deferred charge	—	505
Other noncurrent assets	(4,237)	—
Accounts payable and accrued liabilities	261	(2,655)
Other noncurrent liabilities	(3)	(4)
Net cash provided by operating activities	561	29,180
Cash flows from investing activities		
Purchases of property, plant, and equipment	(2,022)	(1,304)
Sale of assets	—	127,787
Change in short-term investments	4,005	(4,000)
Investment in restricted cash and cash equivalents	—	(276)
Net cash provided by (used in) investing activities	1,983	122,207
Cash flows from financing activity		
Repayment of debt	—	(69,241)
Net cash used in financing activity	—	(69,241)
Increase in cash and cash equivalents	2,544	82,146
Cash and cash equivalents at beginning of period	89,442	48,177
Cash and cash equivalents at end of period	$ 91,986	$ 130,323
Cash paid for		
Interest	$ —	$ 3,135
Noncash transactions		
Accounts payable related to purchases of property, plant, and equipment	$ 2,872	$ 131

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

KGen Power Corporation

Notes to Unaudited Condensed Consolidated Financial Statements

1. Nature of Business and Significant Accounting Policies

Operations—KGen Power Corporation (the "Company") was incorporated in Delaware on December 4, 2006, which is the date of its inception. The Company owns and operates electric power generation plants and sells electricity and electrical generation capacity in the United States to wholesale purchasers such as retail electric providers, power trading organizations, municipal utilities, electric power cooperatives, and other power generation companies. As of December 31, 2011, the Company's portfolio of facilities consisted of two operational and fully permitted combined-cycle power plants (Hot Spring and Hinds), or (the "Plants"), located in the southeastern United States with an aggregate capacity of 1,140 megawatts ("MW").

On July 9, 2010, the Company completed the sale of KGen Sandersville LLC, its former wholly-owned subsidiary and owner of the Sandersville power plant, a 640 MW simple-cycle plant and on April 8, 2011, the Company completed the sale of KGen Murray I and II LLC, its former wholly-owned subsidiary and the owner of the Murray I and Murray II combined-cycle power plants with an aggregate capacity of 1,250 MW. The results of operations for Sandersville and Murray I and II are reported in discontinued operations for the fiscal 2011 periods presented herein.

On April 28, 2011, the Company executed separate definitive agreements for the sale of its Hinds and Hot Spring combined-cycle power plants having an aggregate capacity of 1,140 MW. Assets held for sale and liabilities associated with the assets held for sale related to the Hinds and Hot Spring power generation facilities were recorded as current assets and current liabilities as of December 31, 2011 and June 30, 2011 (See Note 9).

Interim Financial Statements—The accompanying condensed consolidated financial statements have been prepared in accordance with the regulations regarding interim financial reporting. Certain information and footnote disclosures normally included in the financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") have been condensed or omitted. In the opinion of management, all adjustments (consisting of normal recurring accruals, except as noted in Note 6—Commitments and Contingencies) considered necessary for a fair presentation have been included. The balance sheet as of June 30, 2011 reflected herein is derived from the Consolidated Financial Statements and Notes included in the Company's Annual Report for the year ended June 30, 2011. These condensed consolidated financial statements included herein should be read in conjunction with those Consolidated Financial Statements and Notes.

Use of Estimates—The preparation of the condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the condensed consolidated financial statements and accompanying notes. Such estimates include the utilization of deferred tax assets and share-based compensation. Actual results could differ from these estimates.

Principles of Consolidation—The condensed consolidated financial statements include the accounts of the Company and those of KGen Partners LLC, KGen Power Management Inc., KGen LLC, KGen Murray LLC, KGen Murray I and II LLC, KGen Hot Spring LLC, KGen Hinds LLC, KGen Sandersville LLC, and KGen Acquisition I LLC, all direct or indirect 100% owned subsidiaries of the Company, as well as any variable interest entities for which the Company is the primary beneficiary for the periods during which those entities were owned. All significant intercompany balances and transactions have been eliminated in consolidation.

Effects of Seasonality—The electric power industry is highly seasonal. In the summer months, especially in the southeastern United States, demand for electricity is usually much higher as a result of increased use of air conditioning. The Company's results of operations are subject to seasonal variations since demand for electricity and production varies with weather conditions. The Hinds and Hot Spring plants operate on a merchant basis without long-term purchase agreements, and therefore are exposed to significant volatility in prices and generation demand. The Company earns the majority of its annual revenues in the five summer months, May through September. The shoulder periods, months other than the peak summer months, historically have not been profitable for the Company and are typically the months during which the Company seeks to perform scheduled maintenance-related activities.

1. Nature of Business and Significant Accounting Policies (Continued)

Fair Value of Financial Instruments—The Company's current financial instruments consisted primarily of cash and cash equivalents, restricted cash and cash equivalents, restricted cash in escrow, short-term investments, accounts receivable, and accounts payable and accrued liabilities. The carrying values are representative of their respective fair value due to the short-term nature of these instruments.

2. Property, Plant, and Equipment

Property, plant, and equipment consists of the following (in thousands of dollars):

	Estimated Useful Life	December 31, 2011	June 30, 2011
Systems and equipment	5-30 years	$ 3,488	$ 3,488
Less: accumulated depreciation		2,804	2,498
Net property, plant, and equipment		$ 684	$ 990

During the year ended June 30, 2011, the companies that own the assets of the Sandersville simple-cycle power generation facility and the Murray I and II combined-cycle power generation facilities were sold. In addition, on April 28, 2011, the assets of the Hinds and Hot Spring combined-cycle power generation facilities, which are the subject of purchase and sale agreements entered into on April 28, 2011 with subsidiaries of the Entergy Corporation, were classified as held for sale and were no longer presented in property, plant, and equipment (See Note 9).

3. Restricted Cash and Cash Equivalents and Restricted Cash in Escrow

This footnote should be read in conjunction with Note 5—Restricted Cash and Cash Equivalents and Restricted Cash in Escrow of the Notes to the Consolidated Financial Statements contained in the Annual Report for the year ended June 30, 2011.

There were $43.4 million of outstanding letters of credit issued under the $75.0 million letter of credit facility, at both December 31, 2011 and June 30, 2011. The balance was recorded in restricted cash and cash equivalents.

There was $79.7 million in restricted cash in escrow, at both December 31, 2011 and June 30, 2011. This escrow balance was recorded in restricted cash in escrow.

4. Commitments and Contingencies

Litigation—The Company may be a party to various legal and regulatory actions arising in the normal course of business. Matters that are probable of unfavorable outcome to the Company and which can be reasonably estimated are accrued.

Commitments—The Company enters into long-term contractual arrangements for power purchases and capacity sales and to procure fuel and transportation services. There have not been significant changes to these commitments as discussed in Note 6—Commitments in the Notes to Consolidated Financial Statements contained in the Annual Report for the year ended June 30, 2011.

KGen Power Corporation

Notes to Unaudited Condensed Consolidated Financial Statements

5. Derivatives and Investments

The Company recognized all derivatives and investments as either assets or liabilities on the balance sheet and measures those instruments at fair value. The ongoing effects were dependent on future market conditions.

On May 4, 2007, KGen LLC entered into six interest rate swap agreements ("Swaps") for the purpose of reducing exposure to interest rate fluctuations as required under the terms of KGen LLC's former Credit Agreement. Each of the six individual swap agreements had a notional amount of $33.0 million and had a term that expired in each consecutive year, beginning on March 31, 2008 continuing through March 31, 2013. Each of the Swaps was terminated on April 8, 2011 in connection with the termination of KGen LLC's former Credit Agreement.

The Swaps were not accounted for utilizing hedge accounting; they were marked to market with gains and losses shown on the condensed consolidated statements of operations as follows (in thousands of dollars):

	Location of Gain (Loss) on Derivatives	Hierarchy	Gain (Loss) on Derivatives
For the three months ended December 31, 2010......	Interest expense	Level II	$ (107)
For the six months ended December 31, 2010.........	Interest expense	Level II	$(1,008)

The Company evaluated the requirements of FASB ASC 820, *Fair Value Measurement and Disclosures* ("FASB ASC 820") and believed the Swaps were valued using Level II fair value measurements. Under FASB ASC 820, instruments valued using Level II measurements were valued based on either quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that were not active, and/or model-based valuations whose inputs were observable or whose significant value drivers were observable.

On December 9, 2010, the Company entered into short-term investments consisting of two cash collateralized letters of credit supported by certificates of deposit. The balance of the short-term investments was zero and $4.0 million as of December 31, 2011 and June 30, 2011. The short-term investments were redeemed on December 14, 2011 and were included in unrestricted cash as of December 31, 2011. Short-term investment income is shown on the condensed consolidated statements of operations as follows (in thousands of dollars):

	Location of Interest on Short-Term Investments	Hierarchy	Interest on Short-Term Investments
For the three months ended December 31, 2011	Other	Level I	$ 2
For the six months ended December 31, 2011........	Other	Level I	$ 4

The Company evaluated the requirements of FASB ASC 820 and believes the short-term investments are valued using Level 1 fair value measurements. Under FASB ASC 820, instruments valued using Level I measurements are valued based on accessible quoted prices in active markets for identical instruments.

6. Net Earnings (Loss) per Share

Basic earnings (loss) per share is calculated by dividing net income (loss) by the weighted average number of shares of common stock outstanding during the period. Due to the net loss from continuing operations for the three and six months ended December 31, 2011 and for the three months ended December 31, 2010, and the net loss from discontinued operations for the three months ended December 31, 2010, diluted earnings per share was calculated on the same basis as basic loss per share as the inclusion of any other potential shares outstanding would be anti-dilutive. Due to the net income from continuing and discontinued operations for the six months ended December 31, 2010, diluted earnings per share was calculated by adjusting the weighted average number of shares of common stock outstanding by the dilutive effect of incremental shares attributable to unvested restricted stock units ("RSUs") of 92,360 shares. Unexercised out-of-the-money stock options to purchase a weighted average of 796,297 shares of common stock for both the three and six months ended December 31, 2011 and 2010, were not considered in the earnings (loss) per share calculation as the impact of such inclusion would have been anti-dilutive. Amounts shown below are in thousands, except per share amounts.

	For the Three Months Ended December 31, 2011	For the Three Months Ended December 31, 2010	For the Six Months Ended December 31, 2011	For the Six Months Ended December 31, 2010
Numerator:				
Net (loss) income from continuing operations after taxes	$ (5,891)	$ (10,843)	$ (6,538)	$ 11,132
Net (loss) income from discontinued operations after taxes	—	(11,609)	—	51,527
Net (loss) income	$ (5,891)	$ (22,452)	$ (6,538)	$ 62,659
Denominator:				
Weighted average shares outstanding—basic	56,122	56,017	56,122	55,997
Weighted average shares outstanding—diluted	56,122	56,017	56,122	56,089
Net (loss) income per share from continuing operations – basic and diluted	$ (0.10)	$ (0.19)	$ (0.12)	$ 0.20
Net (loss) income from discontinued operations – basic and diluted	—	(0.21)	—	0.92
Total	$ (0.10)	$ (0.40)	$ (0.12)	$ 1.12

7. Share-Based Payments

This footnote should be read in conjunction with Note 9—Share-Based Payments of the Notes to the Consolidated Financial Statements contained in the Annual Report for the year ended June 30, 2011.

The Company recorded compensation expense of $0.1 million and $0.2 million for the three and six months ended December 31, 2011, respectively, and $0.4 million and $0.8 million for the three and six months ended December 31, 2010, respectively, related to the outstanding RSUs. As of December 31, 2011 and June 30, 2011, there was $3.0 thousand and $0.2 million, respectively, of total unrecognized compensation expense related to the unvested RSUs.

8. Income Taxes

The Company's provision for income taxes differed from that determined by applying the federal income tax rate (statutory rate) to income before income taxes, as follows (in thousands of dollars):

	For the Three Months Ended December 31, 2011	For the Three Months Ended December 31, 2010	For the Six Months Ended December 31, 2011	For the Six Months Ended December 31, 2010
Continuing Operations:				
Statutory rate	35%	35%	35%	35%
Tax at statutory rate	$ (3,366)	$ (3,794)	$ (3,794)	$ (5,814)
Increase (decrease) due to:				
Nondeductible meals and entertainment	4	5	5	5
State tax (benefit) expense	(364)	906	(408)	(692)
Return to provision	—	—	(74)	—
Adjustment for intraperiod allocation	—	—	—	(14,101)
Adjustment to valuation allowance	(1)	2,883	(30)	(7,143)
Total provision	$ (3,727)	$ —	$ (4,301)	$ (27,745)
Discontinued Operations:				
Tax at statutory rate	$ —	$ —	$ —	$ (27,745)

Temporary differences and carryforwards which gave rise to deferred tax assets and liabilities were as follow*s (in thousands of dollars):*

	December 31, 2011	June 30, 2011
Deferred tax assets:		
Contract-based intangible assets	$ 31	$ 33
Nonqualified stock options expense	5,909	5,828
Accrued expenses	195	84
Net operating loss	8,933	437
Contribution carryforward	2	—
Net deferred tax assets	15,070	6,382
Deferred tax liabilities:		
Property, plant, and equipment	4,166	(557)
Prepaid expenses	299	542
Contract-based intangible liabilities	5,313	5,313
Net deferred tax liability	9,778	5,298
Valuation allowance	367	396
Deferred tax asset (liabilities), net	$ 4,925	$ 688

During the fiscal year ended June 30, 2011, the Company utilized the majority of its net operating loss carryforwards against federal and state taxable income generated. A portion of the Georgia net operating loss remains which is not expected to be utilized as the Company is not expected to owe Georgia tax in the future. A valuation allowance on this net operating loss remains. Through December 31, 2011, the Company generated a tax loss of $22.0 million. The Company expects to sell its remaining plants within the next twelve months at an estimated tax gain of $214.0 million, which is in excess of the projected tax losses that will be incurred prior to that time. Accordingly, the Company does not believe that a valuation allowance is appropriate at this time as it has determined that its deferred tax assets, with the exception of the Georgia net operating loss, meet the more-likely-than-not recognition criteria.

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Notes to Unaudited Condensed Consolidated Financial Statements

8. Income Taxes (Continued)

The Company recognizes interest and penalties related to unrecognized tax benefits within the provision for income taxes on continuing operations in the condensed consolidated statements of operations. There are no unrecognized tax benefits as of the date of adoption. There are no unrecognized tax benefits that if recognized would affect the tax rate. There are no interest and penalties recognized as of the date of adoption or through December 31, 2011.

The Company filed income tax returns in the United States federal jurisdiction and in various U.S. states. In all material respects, the Company will not be subject to United States federal, state, and local income tax examination by tax authorities for fiscal years ended before 2005.

9. Asset Sales and Assets Held for Sale

This footnote should be read in conjunction with Note 11—Asset Sales and Assets Held for Sale of the Notes to the Consolidated Financial Statements contained in the Annual Report for the year ended June 30, 2011.

Discontinued Operations

The Company has determined it no longer has a presence in the Southern control area given the sale of KGen Sandersville LLC and the sale of KGen Murray I and II LLC and therefore has reflected the results of operations for KGen Sandersville LLC and KGen Murray I and II LLC as discontinued operations for the three months and six months ended December 31, 2010. The following table presents the results of discontinued operations for Sandersville and Murray I and II.

	For the Three Months Ended December 31,2010	For the Six Months Ended December 31,2010
Revenues:		
Energy sales	$ 4,453	$ 61,759
Capacity sales	5,175	31,465
Total revenues	9,628	93,224
Operating expenses:		
Cost of fuel	6,315	51,905
Operating and maintenance	6,890	9,772
Gas transportation	3,209	6,639
Selling, general, and administrative	168	756
Depreciation	2,958	5,913
Auxiliary power	1,267	2,928
Insurance	207	549
Total operating expenses	21,014	78,462
Operating (loss) income	(11,386)	14,762
Other income (expenses):		
Net gain on sale of assets	11	64,991
Taxes, other than income taxes	(234)	(481)
Total other (expenses) income	(223)	64,510
Net (loss) income before taxes	(11,609)	79,272
Income tax benefit (expense)	—	(27,745)
Net (loss) income	$ (11,609)	$ 51,527

9. Asset Sales and Assets Held for Sale (Continued)

KGen Hinds LLC and KGen Hot Spring LLC Held for Sale

On April 28, 2011, it was determined that the assets held for sale criteria were met when the Company executed a definitive agreement for the sale of the Company's Hinds power generation facility to Entergy Mississippi, Inc. for a cash purchase price of $206.0 million, subject to certain adjustments. The Company received approval from holders of a majority of the Company's outstanding shares for the sale of this facility. The transaction is conditioned on the satisfaction of various regulatory approvals and other conditions described in the Proxy Statement for the Company's Special Meeting of Stockholders held June 13, 2011 (the "2011 Special Meeting Proxy Statement"). One of these conditions is that Entergy is to receive a study for network transmission service for the Hinds facility that does not reflect aggregate costs in excess of $10.0 million for the supplemental upgrades required to provide network transmission service for the Hinds facility. In June 2011, Entergy Mississippi received a study that reflected costs in excess of $10.0 million. Entergy Mississippi has submitted a new transmission service request to determine if investment for supplemental upgrades to Entergy's transmission system is needed to make this plant deliverable to Entergy Mississippi after it exits the system agreement among Entergy Corporation's operating companies that relates to the sharing of generating capacity and other resources. These transmission studies are on-going with results expected by early March 2012. The transaction is conditioned upon the receipt of various regulatory approvals and clearances including approval of the FERC, clearance under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 ("the HSR Act") and approval of the Mississippi Public Service Commission which has scheduled a hearing on the certification proceeding for February 28, 2012. On July 15, 2011, Entergy filed an application to approve the transaction with the Mississippi Public Service Commission. On July 27, 2011, the Company and Entergy filed notification and report forms under the HSR Act with the U.S. Federal Trade Commission ("FTC"), and the Antitrust Division of the U.S. Department of Justice ("DOJ"), with respect to the sale of the Hinds facility. On August 26, 2011, the DOJ issued to the Company and Entergy a Request for Additional Information and Documentary Material prior to the expiration of the waiting period. After the parties have substantially complied with the request for information, the parties must observe a 30 calendar day waiting period before closing is permitted, unless the waiting period is terminated earlier or extended with the consent of the parties. On August 31, 2011, the parties filed a joint application with FERC seeking authorizations pursuant to Section 203 of the Federal Power Act. On February 2, 2012, FERC issued an order authorizing Entergy's acquisition of the Hinds facility. The Company expects the transaction to close in the middle of calendar 2012, but may close after such time. Under the terms of the transaction agreement, $30.0 million of the purchase price will be held in escrow to secure customary post-closing indemnification obligations. An escrow amount of $10.0 million is subject to release 12 months after closing, an additional $10.0 million is subject to release 18 months after closing, and the remaining balance will be subject to release 42 months after closing.

The Company expects to incur approximately $7.0 million in capital expenditures during fiscal 2012, primarily related to the drainage/soils master plan for the Hinds facility, which is required by the asset purchase agreement with Entergy Mississippi, Inc.

On April 28, 2011, it was determined that the assets held for sale criteria were met when the Company executed a definitive agreement for the sale of the Company's Hot Spring power generation facility to Entergy Arkansas, Inc. for a cash purchase price of $253.0 million, subject to certain adjustments. The Company received approval from holders of a majority of the Company's outstanding shares for the sale of this facility. The transaction is conditioned on the satisfaction of various regulatory approvals and other conditions described in the 2011 Special Meeting Proxy Statement. One of these conditions is that Entergy is to receive a study for network transmission service for the Hot Spring facility that does not reflect aggregate costs in excess of $40.0 million for the supplemental upgrades required to provide network transmission service for the Hot Spring facility. In June 2011, Entergy Arkansas received a study that reflected costs in excess of $40.0 million. Entergy Arkansas has submitted a new transmission service request to determine if investment for supplemental upgrades to Entergy's transmission system is needed to make this plant deliverable to Entergy Arkansas after it exits the system agreement among Entergy Corporation's operating companies that relates to the sharing of generating capacity and other resources. These transmission studies are on-going with results expected by early April 2012. The transaction is conditioned upon the receipt of various regulatory approvals and clearances including approval of the FERC, clearance under the HSR Act, and approval of the Arkansas Public Service Commission. On July 15, 2011, Entergy filed an application to approve the transaction with the Arkansas Public Service Commission. On January 19, 2012, the Arkansas Public Service Commission issued an order and approved the Joint Stipulation and Settlement filed by Entergy Arkansas., the Arkansas Public Service

9. Asset Sales and Assets Held for Sale (Continued)

Commission General Staff ("Staff") and the Arkansas Attorney General ("AG") on January 13, 2012, which settled outstanding issues raised by the Staff and the AG except for transmission upgrade costs and return on equity. Because the transmission upgrades costs remain uncertain pending the results on ongoing facilities studies, the order suspended the procedural schedule and delayed the hearing until the results of the transmission studies are available. On July 27, 2011, the Company and Entergy filed notification and report forms under the HSR Act with the FTC and the DOJ, with respect to the sale of the Hot Spring facility. On August 26, 2011, the DOJ issued to the Company and Entergy a Request for Additional Information and Documentary Material prior to the expiration of the waiting period. After the parties have substantially complied with the request for information, the parties must observe a 30 calendar day waiting period before closing is permitted, unless the waiting period is terminated earlier or extended with the consent of the parties. On August 31, 2011, the parties filed a joint application with FERC seeking authorizations pursuant to Section 203 of the Federal Power Act. On February 2, 2012, FERC issued an order authorizing Entergy's acquisition of the Hot Spring facility. The Company expects the transaction to close in the middle of calendar 2012, but may close after such time. Under the terms of the transaction agreement, $38.0 million of the purchase price will be held in escrow to secure customary post-closing indemnification obligations. An escrow amount of $12.0 million is subject to release 12 months after closing, an additional $13.8 million is subject to release 18 months after closing, and the remaining balance will be subject to release 42 months after closing.

Under Delaware law, shareholder approval will be required for the ultimate dissolution of the Company. No such approval of the stockholders of the Company has yet been obtained.

Assets held for sale and liabilities associated with the assets held for sale related to the Hinds and Hot Spring power generation facilities were valued at the lower of historical book value or fair value less cost of disposal and were recorded as current assets and current liabilities as of December 31, 2011 and June 30, 2011. The Company suspended related depreciation and amortization of these assets upon their classification of assets held for sale on April 28, 2011. Their combined total consisted of the following (in thousands of dollars):

	December 31, 2011	June 30, 2011
Accounts receivable	$ —	$ 4,000
Spare parts inventories	3,972	3,879
Property, plant, and equipment (net of $40,323 of accumulated depreciation)	251,671	246,777
Other assets	245	245
Assets held for sale	$ 255,888	$ 254,901
Accounts payable and accrued liabilities	$ 10,303	$ 6,479
Contract-based intangibles (net of $5,161 of accumulated amortization)	13,700	13,700
Liabilities associated with assets held for sale	$ 24,003	$ 20,179

Contract-based intangibles related to the held for sale assets consist of the following (in thousands of dollars):

	Term	Original Cost	Accumulated Amortization	December 31, 2011	June 30, 2011
Hot Spring firm transportation contracts	Various	$ 18,861	$ (5,161)	$ 13,700	$ 13,700
Total liabilities		$ 18,861	$ (5,161)	$ 13,700	$ 13,700

10. Subsequent Events

Subsequent events were analyzed and considered through February 14, 2012, the date this report was available for issuance.

Number 2. ***Management's Discussion and Analysis of Financial Condition and Results of Operations***

Business Overview

We own and operate electric power generation plants and sell electricity and electrical generation capacity in the southeastern United States. We sell power and related products to wholesale purchasers such as retail electric providers, power trading organizations, municipal utilities, electric power cooperatives, and other power generation companies. Our portfolio of facilities consists of two operational and fully permitted combined-cycle power plants, Hot Spring and Hinds, with General Electric (GE) 7FA gas turbines. Our combined-cycle Plants have an aggregate nominal capacity of 1,140 megawatts, or MW. On July 9, 2010, we completed the sale of our Sandersville power plant, a 640 MW simple-cycle plant, for which we received $129.3 million in cash sales proceeds. On April 8, 2011, we completed the sale of our Murray I and Murray II combined-cycle power plants having an aggregate nominal capacity of 1,250 MW, for which we received $530.3 million in cash sales proceeds. On April 28, 2011, we executed separate definitive sales agreements for the sale of our Hinds and Hot Spring combined-cycle power plants having an aggregate nominal capacity of 1,140 MW.

Our two Plants currently operate, and historically the Sandersville and Murray II power plants operated, as merchant power providers. Our Murray I combined-cycle plant, benefited from a fixed-price long-term power purchase agreement, or the GPC PPA, for all of its 630 MW of capacity with Georgia Power, a subsidiary of Southern Company. The GPC PPA provided for fixed capacity payments that provided stable cash flow. The Company recognized $5.2 million and $31.5 million related to capacity sales on the GPC PPA for the three and six months ended December 31, 2010, related to capacity sales on the GPC PPA, respectively.

Results of Operations

Our results of operations are subject to seasonal variations since demand for electricity and production capacity varies with weather conditions. For our merchant plants, we earn the majority of our revenues in the months of May through September. Months other than the peak summer months are the months during which we typically seek to perform scheduled maintenance-related activities. The below information does not include the discontinued results of operations of Murray and Sandersville for the three and six months ended December 31, 2010.

Consolidated Results of Operations of KGen for the Three Months Ended December 31, 2011 compared to the Three Months Ended December 31, 2010.

The following table sets forth our results of operations for the three months ended December 31, 2011 and 2010, expressed in thousands of dollars.

	For the Three Months Ended December 31, 2011	For the Three Months Ended December 31, 2010	Favorable/(Unfavorable)	
			Change	% Change
Revenues:				
Energy sales	$ 6,019	$ 11,440	$ (5,421)	(47%)
Capacity sales	248	609	(361)	(59%)
Total revenues	6,267	12,049	(5,782)	(48%)
Operating expenses:				
Cost of fuel	5,005	9,702	4,697	48%
Operating and maintenance	4,251	4,161	(90)	(2%)
Gas transportation	2,411	245	(2,166)	(884%)
Selling, general, and administrative	2,193	2,997	804	27%
Depreciation	152	2,588	2,436	94%
Auxiliary power	637	599	(38)	(6%)
Insurance	461	383	(78)	(20%)
Total operating expenses	15,110	20,675	5,565	27%
Operating loss	(8,843)	(8,626)	(217)	(3%)
Interest expense	—	(1,805)	1,805	100%
Taxes, other than income taxes	(712)	(379)	(333)	(88%)
Other	(63)	(33)	(30)	(91%)
Total other expenses	(775)	(2,217)	1,442	65%
Net loss from continuing operations before taxes	$ (9,618)	$ (10,843)	$ 1,225	11%

Operating and Business Metrics We Use to Analyze the Company's Performance for the Three Months Ended December 31, 2011 and December 31, 2010

In addition to the foregoing results of operations presented in accordance with GAAP, we utilize various non-GAAP operating and business metrics to analyze the Company's performance. We believe these metrics provide useful insight into the Company's performance, assist us in identifying trends in our business, and better allow us to compare our performance to others in our industry. We describe below these various non-GAAP metrics and provide a reconciliation of these metrics for the three months ended December 31, 2011 and 2010, to the most directly comparable GAAP measures for those periods. See the reconciliation of net loss to adjusted EBITDA on page 17. This presentation may not include all of the disclosure that SEC regulations would require a company that files periodic reports with the SEC to make, with respect to non-GAAP financial measures.

Merchant Margin

Merchant margin is equal to the sum of merchant energy margin and merchant capacity sales. Merchant energy margin is defined as energy sales less the related cost of fuel pursuant to arrangements having an original delivery term of less than one year. Merchant capacity sales is defined as capacity sales pursuant to arrangements having an original delivery term of less than one year. We consider our Plants to be merchant plants because they did not sell their energy output and capacity pursuant to long-term sales agreements during these reporting periods.

	For the Three Months Ended December 31, 2011	For the Three Months Ended December 31, 2010
Energy sales	$ 6,019	$ 11,440
Less: Cost of fuel	(5,005)	(9,702)
Merchant energy margin	1,014	1,738
Merchant capacity sales	248	609
Merchant margin	$ 1,262	$ 2,347

Adjusted Plant Expense and Adjusted Corporate Expense

Adjusted plant expenses is defined as total operating expenses adjusted for the removal of (a) cost of fuel captured in merchant energy margin, (b) major maintenance expense, (c) the income effects of noncash amortization of contract-based intangibles of gas transportation expense, (d) all selling, general, and administrative expense, part of which is captured in adjusted corporate expenses (defined below), (e) any nonrecurring items such as contract termination and transition costs, (f) depreciation, (g) director and officer insurance expense captured in adjusted corporate expenses (defined below); and (h) the addition of taxes, other than income taxes, as it largely represents plant property taxes and payments in lieu of taxes.

	For the Three Months Ended December 31, 2011	For the Three Months Ended December 31, 2010
Total operating expenses	$ 15,110	$ 20,675
Less: Cost of fuel	(5,005)	(9,702)
Less: Major maintenance expense	(432)	(597)
Add: Gas transportation noncash amortization	—	306
Less: Selling, general, and administrative expense	(2,193)	(2,997)
Less: Depreciation	(152)	(2,588)
Less: D&O insurance expense	(42)	(42)
Add: Taxes, other than income taxes	712	379
Adjusted plant expenses	$ 7,998	$ 5,434

Adjusted corporate expenses is defined as selling, general, and administrative expense adjusted for (a) the removal of noncash stock compensation, (b) any nonrecurring items such as expenses associated with employee severance and plant sales and (c) the addition of director and officer insurance expense.

	For the Three Months Ended December 31, 2011	For the Three Months Ended December 31, 2010
Selling, general, and administrative expense	$ 2,193	$ 2,997
Less: Noncash employee options/awards expense	(76)	(432)
Add : Employee severance expense	—	6
Less: Sale of plant expenses	(223)	—
Add: D&O insurance expense	42	42
Adjusted corporate expenses	$ 1,936	$ 2,613

Adjusted Plant EBITDA and Adjusted EBITDA:

Adjusted plant EBITDA is defined as merchant margin less adjusted plant expenses. Adjusted EBITDA is defined as adjusted plant EBITDA less adjusted corporate expenses.

	For the Three Months Ended December 31, 2011	For the Three Months Ended December 31, 2010	Favorable/Unfavorable) Change	% Change
Merchant energy margin	$ 1,014	$ 1,738	$ (724)	(42%)
Merchant capacity sales	248	609	(361)	(59%)
Merchant margin	1,262	2,347	(1,085)	(46%)
Adjusted plant expenses	7,998	5,434	(2,564)	(47%)
Adjusted plant EBITDA	(6,736)	(3,087)	(3,649)	(118%)
Adjusted corporate expenses	1,936	2,613	677	26%
Adjusted EBITDA	$ (8,672)	$ (5,700)	$ (2,972)	(52%)

Selected Operating and Business Metrics

	For the Three Months Ended December 31, 2011	For the Three Months Ended December 31, 2010	Favorable/(Unfavorable) Change	% Change
Selected Financial and Operating Data				
Merchant generation (GWh)	185	340	(155)	(46%)
Merchant margin/merchant generation ($/MWh)	$ 6.82	$ 6.90	$ (0.08)	(1%)

Selected Market and Weather Data

	For the Three Months Ended December 31, 2011	For the Three Months Ended December 31, 2010	Change	% Change
Selected Market Data(1)				
Average on-peak market power price—Entergy ($/MWh)	$ 28.96	$ 32.35	$ (3.39)	(10%)
Average Henry Hub gas price ($/MMbtu)	$ 3.31	$ 3.78	$ (0.47)	(12%)
Selected Weather Data				
Actual CDDs(2)	114	167	(53)	(32%)
Normal CDDs	59	59	—	0%
Actual HDDs(3)	1,673	1,979	(306)	(15%)
Normal HDDs	1,944	1,944	—	0%

Notes:

(1) Data from Platt's Megawatt Daily and Gas Daily publications.

(2) CDD, or cooling degree days, represents the number of degrees during April through October that the mean temperature for a particular day is above 65 degrees Fahrenheit. The CDDs are then accumulated for a given period.

(3) HDD, or heating degree days, represents the number of degrees that the mean temperature for a particular day is below 65 degrees Fahrenheit. The HDDs are then accumulated for a given period.

Historical Results of Operations of KGen for the Three Months Ended December 31, 2011 compared to the Three Months Ended December 31, 2010.

Merchant margin decreased by $1.1 million, to $1.3 million for the three months ended December 31, 2011. Merchant generation decreased by 46% from 340 GWh to 185 GWh for the three months ended December 31, 2011 as compared to the three months ended December 31, 2010. The decline in merchant margin and merchant generation was primarily due to the drainage/soils maintenance work at the Hinds facility that began in September 2011 and was substantially completed in January 2012, and the fall outage at the Hot Spring facility that occurred in November and December 2011. The implied merchant spark spread, or merchant margin divided by merchant generation, decreased from $6.90 per MWh to $6.82 per MWh.

Adjusted plant expenses increased by $2.6 million, or 47%, to $8.0 million for the three months ended December 31, 2011. The increase related to a $1.9 million increase in gas transportation primarily due to TETCO fuel transportation agreements that began this past summer, a $0.4 million increase property taxes at Hinds due to the expiration of the payments in lieu of taxes agreement, and a $0.1 million increase in insurance expense.

As a result of the foregoing changes in merchant margin and adjusted plant expenses, adjusted plant EBITDA decreased by $3.6 million to a loss of $6.7 million for the three months ended December 31, 2011.

Adjusted corporate expenses decreased by $0.7 million, or 26%, to $1.9 million for the three months ended December 31, 2011. The $0.7 million decrease was due primarily to a decrease in legal expenses for the three months ended December 31, 2011 as compared to the same period in the previous year.

As a result of the foregoing, adjusted EBITDA decreased by $3.0 million to a loss of $8.7 million for the three months ended December 31, 2011.

GAAP to Non-GAAP Adjusted EBITDA Reconciliation

Following is an alternative calculation of adjusted EBITDA and adjusted plant EBITDA starting from net loss before taxes. EBITDA is equal to net loss before taxes adjusted for interest expenses, income taxes, depreciation, and amortization. Adjusted EBITDA is equal to EBITDA minus certain other items (such as major maintenance and other nonrecurring expenses). Adjusted plant EBITDA is equal to total adjusted EBITDA less certain corporate expenses.

	For the Three Months Ended December 31, 2011	For the Three Months Ended December 31, 2010
Net loss before taxes	$ (9,618)	$ (10,843)
Add: Interest expense	—	1,805
Add: Depreciation	152	2,588
Less: Gas transportation noncash amortization	—	(306)
Add: Other expenses	63	33
EBITDA	(9,403)	(6,723)
Add: Major maintenance expense	432	597
Add: Noncash employee options/awards expense	76	432
Less: Employee severance expense	—	(6)
Add: Sale of plant expense	223	—
Adjusted EBITDA	(8,672)	(5,700)
Add: Selling, general, and administrative expense	2,193	2,997
Less: Noncash employee options/awards expense	(76)	(432)
Add: Employee severance expense	—	6
Less: Sale of plant expense	(223)	—
Add: D&O insurance expense	42	42
Adjusted plant EBITDA	$ (6,736)	$ (3,087)

The following describes changes to specified financial measures of our performance. As indicated above, in calculating our adjusted EBITDA, we made adjustments to our net loss before taxes using these financial measures for the three months ended December 31, 2011 compared to the three months ended December 31, 2010.

- Interest expense for the three months ended December 31, 2011 was zero compared to $1.8 million for the same period in 2010. The $1.8 million decrease was due to the April 2011 repayment of all of the outstanding debt under KGen LLC's former credit agreement and the termination of the related interest rate swap agreements.

- Depreciation was $0.2 million and $2.6 million for the three months ended December 31, 2011 and 2010, respectively. The $2.4 million decrease was due to the suspension of depreciation related to the Hinds and Hot Spring plants in the amounts of $0.9 million and $1.5 million, respectively, due to their held for sale status.

- Amortization of contract-based natural gas transportation rights and obligations was zero and $0.3 million for the three months ended December 31, 2011 and 2010, respectively, and was recorded as an increase of gas transportation expense. The $0.3 million decrease was due to the suspension of amortization on the Hot Spring intangibles due to their held for sale status.

- Major maintenance expense for the three months ended December 31, 2011 and 2010 was $0.4 million and $0.6 million, respectively. The $0.4 million expense in the current period related to major maintenance at the Hot Spring facility. The $0.6 million expense in prior period related to $0.4 million of major maintenance at the Hinds facility and $0.2 million at the Hot Spring facility.

- Noncash employee options/awards expense for the three months ended December 31, 2011 and 2010 was $0.1 million and $0.4 million, respectively, and was recorded as an increase of selling, general, and administrative expense.

- Sale of plant expenses for the three months ended December 31, 2011 and 2010 were $0.2 million and zero, respectively, and were recorded as an increase of selling, general, and administrative expense.

- Selling, general, and administrative expense was $2.2 million and $3.0 million for the three months ended December 31, 2011 and 2010, respectively. The $0.8 million decrease was due to a $0.4 million decrease in RSU expense and a $0.4 million decrease in legal expenses for the three months ended December 31, 2011 as compared to the same period in the previous year.

Consolidated Results of Operations of KGen for the Six Months Ended December 31, 2011 compared to the Six Months Ended December 31, 2010.

The following table sets forth our results of operations for the six months ended December 31, 2011 and 2010, expressed in thousands of dollars.

	For the Six Months Ended December 31, 2011	For the Six Months Ended December 31, 2010	Favorable/(Unfavorable) Change	% Change
Revenues:				
Energy sales	$ 39,266	$ 54,363	$ (15,097)	(28%)
Capacity sales	6,837	3,409	3,428	101%
Total revenues	46,103	57,772	(11,669)	(20%)
Operating expenses:				
Cost of fuel	34,279	44,899	10,620	24%
Operating and maintenance	7,494	8,179	685	8%
Gas transportation	5,479	2,383	(3,096)	(130%)
Selling, general, and administrative	4,724	5,700	976	17%
Depreciation	306	5,185	4,879	94%
Auxiliary power	1,591	1,515	(76)	(5%)
Insurance	952	776	(176)	(23%)
Total operating expenses	54,825	68,637	13,812	20%
Operating income (loss)	(8,722)	(10,865)	2,143	20%
Other income (expenses):				
Interest expense	—	(4,591)	4,591	100%
Taxes, other than income taxes	(2,014)	(1,084)	(930)	(86%)
Other	(103)	(73)	(30)	(41%)
Total other expenses	(2,117)	(5,748)	3,631	63%
Net income (loss) from continuing operations before taxes	$ (10,839)	$ (16,613)	$ 5,774	35%

Operating and Business Metrics We Use to Analyze the Company's Performance for the Six Months Ended December 31, 2011 and December 31, 2010

In addition to the foregoing results of operations presented in accordance with GAAP, we utilize various non-GAAP operating and business metrics to analyze the Company's performance. We believe these metrics provide useful insight into the Company's performance, assist us in identifying trends in our business, and better allow us to compare our performance to others in our industry. We describe below these various non-GAAP metrics and provide a reconciliation of these metrics for the six months ended December 31, 2011 and 2010, to the most directly comparable GAAP measures for those periods. See the reconciliation of net loss to adjusted EBITDA on page 21. This presentation may not include all of the disclosure that SEC regulations would require a company that files periodic reports with the SEC to make, with respect to non-GAAP financial measures.

Merchant Margin

Merchant margin is equal to the sum of merchant energy margin and merchant capacity sales. Merchant energy margin is defined as energy sales less the related cost of fuel pursuant to arrangements having an original delivery term of less than one year. Merchant capacity sales is defined as capacity sales pursuant to arrangements having an original delivery term of less than one year. We consider our Plants to be merchant plants because they did not sell their energy output and capacity pursuant to long-term sales agreements during these reporting periods.

	For the Six Months Ended December 31, 2011	For the Six Months Ended December 31, 2010
Energy sales	$ 39,266	$ 54,363
Less: Cost of Fuel	(34,279)	(44,899)
Merchant energy margin	4,987	9,464
Merchant capacity sales	6,837	3,409
Merchant margin	$ 11,824	$ 12,873

Adjusted Plant Expense and Adjusted Corporate Expense

Adjusted plant expenses is defined as total operating expenses adjusted for the removal of (a) cost of fuel captured in merchant energy margin, (b) major maintenance expense, (c) the income effects of noncash amortization of contract-based intangibles of gas transportation expense, (d) all selling, general, and administrative expense, part of which is captured in adjusted corporate expenses (defined below), (e) any nonrecurring items such as contract termination and transition costs, (f) depreciation, (g) director and officer insurance expense captured in adjusted corporate expenses (defined below); and (h) the addition of taxes, other than income taxes, as it largely represents plant property taxes and payments in lieu of taxes.

	For the Six Months Ended December 31, 2011	For the Six Months Ended December 31, 2010
Total operating expenses	$ 54,825	$ 68,637
Less: Cost of fuel	(34,279)	(44,899)
Less: Major maintenance expense	(432)	(2,287)
Add: Gas transportation noncash amortization	—	611
Less: Selling, general, and administrative expense	(4,724)	(5,700)
Less: Depreciation	(306)	(5,185)
Less: D&O insurance expense	(85)	(85)
Add: Taxes, other than income taxes	2,014	1,084
Adjusted plant expenses	$ 17,013	$ 12,176

Adjusted corporate expenses is defined as selling, general, and administrative expense adjusted for (a) the removal of noncash stock compensation, (b) any nonrecurring items such as expenses associated with plant sales and (c) the addition of director and officer insurance expense.

	For the Six Months Ended December 31, 2011	For the Six Months Ended December 31, 2010
Selling, general, and administrative expense	$ 4,724	$ 5,700
Less: Noncash employee options/awards expense	(208)	(827)
Add: Employee severance expense	—	6
Less: Sale of plant expense	(442)	(5)
Add: D&O insurance expense	85	85
Adjusted corporate expenses	$ 4,159	$ 4,959

Adjusted Plant EBITDA and Adjusted EBITDA:

Adjusted plant EBITDA is defined as merchant margin less adjusted plant expenses. Adjusted EBITDA is defined as adjusted plant EBITDA less adjusted corporate expenses.

	For the Six Months Ended December 31, 2011	For the Six Months Ended December 31, 2010	Favorable/Unfavorable)	
			Change	% Change
Merchant energy margin	$ 4,987	$ 9,464	$ (4,477)	(47%)
Merchant capacity sales	6,837	3,409	3,428	101%
Merchant margin	11,824	12,873	(1,049)	(8%)
Adjusted plant expenses	17,013	12,176	(4,837)	(40%)
Adjusted plant EBITDA	(5,189)	697	(5,886)	(844%)
Adjusted corporate expenses	4,159	4,959	800	16%
Adjusted EBITDA	$ (9,348)	$ (4,262)	$ (5,086)	(119%)

Selected Operating and Business Metrics

	For the Six Months Ended December 31, 2011	For the Six Months Ended December 31, 2010	Favorable/(Unfavorable)	
			Change	% Change
Selected Financial and Operating Data				
Merchant generation (GWh)	1,084	1,407	(323)	(23%)
Merchant margin/merchant generation ($/MWh)	$ 10.91	$ 9.15	$ 1.76	19%

Selected Market and Weather Data

	For the Six Months Ended December 31, 2011	For the Six Months Ended December 31, 2010	Change	% Change
Selected Market Data(1)				
Average on-peak market power price—Entergy ($/MWh)	$ 34.92	$ 38.02	$ (3.10)	(8%)
Average Henry Hub gas price ($/MMbtu)	$ 3.72	$ 4.03	$ (0.31)	(8%)
Selected Weather Data				
Actual CDDs(2)	3,112	3,354	(242)	(7%)
Normal CDDs	2,672	2,672	—	0%
Actual HDDs(3)	1,673	1,979	(306)	(15%)
Normal HDDs	1,944	1,944	—	0%

Notes:

(1) Data from Platt's Megawatt Daily and Gas Daily publications.

(2) CDD, or cooling degree days, represents the number of degrees during April through October that the mean temperature for a particular day is above 65 degrees Fahrenheit. The CDDs are then accumulated for a given period.

(3) HDD, or heating degree days, represents the number of degrees that the mean temperature for a particular day is below 65 degrees Fahrenheit. The HDDs are then accumulated for a given period.

Historical Results of Operations of KGen for the Six Months Ended December 31, 2011 compared to the Six Months Ended December 31, 2010.

Merchant margin decreased $1.1 million, to $11.8 million for the six months ended December 31, 2011. Merchant generation decreased by 23% from 1,407 GWh to 1,084 GWh for the six months ended December 31, 2011 as compared to the six months ended December 31, 2010. While the weather was slightly cooler as evidenced by a 7% decrease in CDDs, the decline in merchant margin and merchant generation was primarily due to the drainage/soils maintenance work at the Hinds facility that began in September 2011 and was substantially completed in January 2012 and the fall outage at the Hot Spring facility that occurred in November and December 2011. The implied merchant spark spread, or merchant margin divided by merchant generation, increased from $9.15 per MWh to $10.91 per MWh. The increase in merchant spark spread can be attributed to higher hedged values at the Plants as compared to the prior period and lower generation as a result of the maintenance work that began in September 2011.

Adjusted plant expenses increased by $4.8 million, or 40%, to $17.0 million for the six months ended December 31, 2011. The increase related primarily to a $0.9 million increase in operating and maintenance expenses caused primarily by a scheduled outage at the Hinds facility, a $2.5 million increase in gas transportation primarily due to TETCO fuel transportation agreements that began this past summer, a $1.1 million increase property taxes at Hinds due to the expiration of the payments in lieu of taxes agreement, and a $0.2 million increase in insurance expense.

As a result of the foregoing changes in merchant margin and adjusted plant expenses, adjusted plant EBITDA decreased by $5.9 million to a loss of $5.2 million for the six months ended December 31, 2011.

Adjusted corporate expenses decreased by $0.8 million, or 16%, to $4.2 million for the six months ended December 31, 2011. The $0.8 million decrease was due primarily to a decrease in legal expenses for the six months ended December 31, 2011 as compared to the same period in the previous year.

As a result of the foregoing, adjusted EBITDA decreased by $5.1 million to a loss of $9.3 million for the six months ended December 31, 2011.

GAAP to Non-GAAP Adjusted EBITDA Reconciliation

Following is an alternative calculation of adjusted EBITDA and adjusted plant EBITDA starting from net loss before taxes. EBITDA is equal to net loss before taxes adjusted for interest expenses, income taxes, depreciation, and amortization. Adjusted EBITDA is equal to EBITDA minus certain other items (such as major maintenance and other nonrecurring expenses). Adjusted plant EBITDA is equal to total adjusted EBITDA less certain corporate expenses.

	For the Six Months Ended December 31, 2011	**For the Six Months Ended December 31, 2010**
Net loss before taxes	$ (10,839)	$ (16,613)
Add: Interest expense	—	4,591
Add: Depreciation	306	5,185
Less: Gas transportation noncash amortization	—	(611)
Add: Other expenses	103	73
EBITDA	(10,430)	(7,375)
Add (Less): Major maintenance expense	432	2,287
Add: Noncash employee options/awards expense	208	827
Less: Employee severance expense	—	(6)
Add: Sale of plant expense	442	5
Adjusted EBITDA	(9,348)	(4,262)
Add: Selling, general, and administrative expense	4,724	5,700
Less: Noncash employee options/awards expense	(208)	(827)
Add: Employee severance expense	—	6
Less: Sale of plant expense	(442)	(5)
Add: D&O insurance expense	85	85
Adjusted plant EBITDA	$ (5,189)	$ 697

The following describes changes to specified financial measures of our performance. As indicated above, in calculating our adjusted EBITDA, we made adjustments to our net loss before taxes using these financial measures for the six months ended December 31, 2011 compared to the six months ended December 31, 2010.

- Interest expense for the six months ended December 31, 2011 was zero compared to $4.6 million for the same period in 2010. The $4.6 million decrease was due to the April 2011 repayment of all of the outstanding debt under KGen LLC's former credit agreement and the termination of the related interest rate swap agreements.

- Depreciation was $0.3 million and $5.2 million for the six months ended December 31, 2011 and 2010, respectively. The $4.9 million decrease was due to the suspension of depreciation related to the Hinds and Hot Spring plants in the amounts of $1.7 million and $3.2 million, respectively, due to their held for sale status.

- Amortization of contract-based natural gas transportation rights and obligations was zero and $0.6 million for the six months ended December 31, 2011 and 2010, respectively, and was recorded as an increase of gas transportation expense. The $0.6 million decrease was due to the suspension of amortization on the Hot Spring intangibles due to their held for sale status.

- Major maintenance expense for the six months ended December 31, 2011 and 2010 was $0.4 million and $2.3 million, respectively. The $0.4 million expense in the current period related to major maintenance at the Hot Spring facility. The $2.3 million expense in the prior period primarily represented a $1.7 million payment to GE as a result of restructuring the long-term service agreements with GE, $0.4 million of major maintenance performed at the Hinds facility, and $0.2 million performed at the Hot Spring facility.

- Noncash employee options/awards expense for the six months ended December 31, 2011 and 2010 was $0.2 million and $0.8 million, respectively, and was recorded as an increase of selling, general, and administrative expense.

- Sale of plant expenses for the six months ended December 31, 2011 and 2010 were $0.4 million and $5.0 thousand, respectively, and were recorded as an increase of selling, general, and administrative expense.

- Selling, general, and administrative expense was $4.7 million and $5.7 million for the six months ended December 31, 2011 and 2010, respectively. The $1.0 million decrease was due to $0.6 million decrease in RSU expense and a $0.4 million decrease in legal expenses for the six months ended December 31, 2011 as compared to the same period in the previous year.

Liquidity and Capital Resources

Liquidity Position

Our current cash on hand consists of $92.0 million of unrestricted cash, $43.4 million of restricted cash, and $79.7 million of restricted cash in escrow. We anticipate that our cash on hand and cash flow provided by operations will satisfy our short term liquidity needs with respect to our current portfolio of assets. Historically, our principal sources of funds were cash flows from operations and borrowings under our former Credit Facility. Our principal use of funds consisted of operating expenditures and capital expenditures.

Subsequent to the repayment of all outstanding debt under KGen LLC's former credit agreement, a $75.0 million cash collateralized replacement letter of credit facility was entered into on April 8, 2011 of which $43.4 million of letters of credit have been issued. The $43.4 million of cash collateral supporting this letter of credit facility was recorded in restricted cash and cash equivalents. The letters of credit issued under this facility support obligations associated with ongoing long-term gas transportation contracts at the Hinds and Hot Spring facilities. Fees related to this letter of credit facility were $0.1 million and were expensed as incurred.

In connection with the April 8, 2011 sale of the Murray I and II combined-cycle power generation facilities, $79.7 million was placed in escrow for a period of 18 months after closing to secure customary post-closing indemnification obligations and will be subject to taxation. This escrow balance was recorded in restricted cash in escrow and is expected to be released in October 2012.

Capital Expenditures and Major Maintenance

Total capital expenditures for the six months ended December 31, 2011 were $4.9 million. We expect to incur approximately $7.0 million in capital expenditures during fiscal 2012, primarily related to the drainage/soils master plan for the Hinds facility, which is required by the asset purchase agreement with Entergy Mississippi, Inc. This work was substantially completed in January 2012.

Major maintenance expense was $0.4 million and $0.6 million for the three months ended December 31, 2011 and 2010, respectively. The $0.4 million expense in the current period related to major maintenance at the Hot Spring facility. The $0.6 million expense was related to $0.4 million of major maintenance performed at the Hinds facility and $0.2 million at the Hot Spring facility. Major maintenance expense was $0.4 million and $2.3 million for the six months ended December 31, 2011 and 2010, respectively. The $0.4 million expense in the current period related to major maintenance at the Hot Spring facility. The $2.3 million expense primarily related to a $1.7 million payment to GE as a result of restructuring the long-term service agreements with GE, $0.4 million performed at the Hinds facility, and $0.2 million performed at the Hot Spring facility.

The timing of major maintenance expenditures is uncertain and can be delayed or accelerated depending on many factors including plant utilization, unexpected plant shut-downs for other reasons, and unanticipated dispatch schedules. We budget anticipated major maintenance costs by using our estimate of future anticipated run time at each facility. This schedule can change based upon changes to actual run time.

We incur costs for major maintenance on the Plants which are expensed in the period incurred. We expect to incur $0.6 million in major maintenance expenses in the remaining six months of fiscal 2012.

Cash Flow Analysis

The following table summarizes our changes in cash (in thousands of dollars):

	For the Six Months Ended December 31, 2011	For the Six Months Ended December 31, 2010
Statements of Cash Flows Data:		
Cash flows provided by (used in):		
Operating activities	$ 561	$ 29,180
Investing activities	1,983	122,207
Financing activity	—	(69,241)
Increase in cash and cash equivalents	2,544	82,146
Cash and cash equivalents at beginning of period	89,442	48,177
Cash and cash equivalents at end of period	$ 91,986	$ 130,323

Cash Flows from Operating Activities. Our cash flows provided by operations were $0.6 million for the six months ended December 31, 2011, primarily related to depreciation expense of $0.3 million, stock-based compensation of $0.2 million, an increase in accounts receivable of $5.0 million, an increase in prepaid expenses and other current assets of $5.7 million and an increase in accounts payable and accrued liabilities of $0.3 million, which was offset primarily by a net loss of $6.5 million, a $0.1 million decrease in spare parts inventories, and a decrease in other noncurrent assets of $4.2 million.

Cash Flows from Investing Activities. Our cash flows provided by investing activities for the six months ended December 31, 2011 were $2.0 million and related mainly to a redemption of short-term investments of $4.0 million, which was offset by $2.0 million in purchases of property, plant, and equipment.

Cash Flows from Financing Activity. Our cash flows used in financing activity for the six months ended December 31, 2011 was zero.

PART II-OTHER INFORMATION

Number 1A. Risk Factors and Forward-Looking Statements

Risk Factors

Please refer to Number 1A of our Annual Report for the year ended June 30, 2011.

Forward-Looking Statements

The discussion in this report contains certain forward looking statements that involve risks and uncertainties. We have based these forward looking statements on our current expectations and assumptions about future events. In some cases, you can identify forward looking statements by terminology, such as “may,” “should,” “could,” “predict,” “potential,” “continue,” “expect,” “anticipate,” “future,” “intend,” “plan,” “believe,” “estimate,” “forecast” and similar expressions (or the negative of such expressions). Forward looking statements include statements concerning known and unknown risks, uncertainties and other important factors that could cause actual results, performance or achievements of KGen Power Corporation and its subsidiaries to differ materially from any future results, performance or achievements expressed or implied by such forward looking statements. Forward looking statements are based on our beliefs as well as assumptions based on information currently available to us, including financial and operational information, current competitive conditions, and anticipated demand for electricity. As a result, these statements are subject to various risks and uncertainties. For a discussion of material risks and uncertainties that the Company faces, see the discussion above, and the “Cautionary Statement concerning Forward Statements” and Part I. “Number 1A. Risk Factors” in our Annual Report for the fiscal year ended June 30, 2011.

Number 2. Submission of Matters to a Vote of Security Holders

On December 15, 2011, we held our annual meeting of shareholders. At the meeting, the following proposals were voted upon and approved:

	For	Against	Abstain	Broker Non-Votes
Nominees				
Daniel T. Hudson	48,332,269	—	80,357	1,732,417
Gerald J. Stalun	48,332,269	—	80,357	1,732,417
Thomas B. White	48,332,269	—	80,357	1,732,417

	For	Against	Abstain	Broker Non-Votes
Ratify Deloitte & Touche LLP as the Independent, Registered Public Accountants	50,145,043	—	—	—