KGEN POWER CORPORATION

Report to Shareholders

for

Quarter Ended September 30, 2011

Four Oaks Place
1330 Post Oak Boulevard, Suite 1500
Houston, Texas 77056

Investor Relations
713-979-1990

TABLE OF CONTENTS

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)

	September 30, 2011	June 30, 2011
Assets		
Current assets:		
Cash and cash equivalents	**$ 91,890**	$ 89,442
Restricted cash and cash equivalents	**43,384**	43,384
Short-term investments	**4,007**	4,005
Accounts receivable	**109**	994
Prepaid expenses and other current assets	**6,523**	6,731
Assets held for sale	**253,350**	254,901
Total current assets	**399,263**	399,457
Property, plant, and equipment	**3,488**	3,488
Less: accumulated depreciation	**2,651**	2,498
Net property, plant, and equipment	**837**	990
Restricted cash in escrow	**79,702**	79,688
Other noncurrent assets	**1,198**	688
Total assets	**$ 481,000**	$ 480,823
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable and accrued liabilities	**$ 1,766**	$ 2,571
Liabilities associated with assets held for sale	**21,678**	20,179
Total current liabilities	**23,444**	22,750
Other noncurrent liabilities	**12**	13
Commitments and contingencies (Note 4)		
Stockholders' equity:		
Common stock (par value $.01; 150,000 shares authorized; 56,122 shares issued and outstanding at both September 30, 2011 and June 30, 2011, respectively)	**561**	561
Additional paid in capital	**463,427**	463,295
Accumulated deficit	**(6,444)**	(5,796)
Total stockholders' equity	**457,544**	458,060
Total liabilities and stockholders' equity	**$ 481,000**	$ 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 September 30, 2011	For the Three Months Ended September 30, 2010
Revenues:		
Energy sales	**$ 33,247**	$ 42,923
Capacity sales	**6,589**	2,800
Total revenues	**39,836**	45,723
Operating expenses:		
Cost of fuel	**29,274**	35,197
Operating and maintenance	**3,243**	4,018
Gas transportation	**3,069**	2,138
Selling, general, and administrative	**2,531**	2,705
Depreciation	**154**	2,597
Auxiliary power	**954**	916
Insurance	**491**	393
Total operating expenses	**39,716**	47,964
Operating income (loss)	**120**	(2,241)
Other expenses:		
Interest expense	**—**	(2,786)
Taxes, other than income taxes	**(1,302)**	(705)
Other	**(40)**	(39)
Total other expenses	**(1,342)**	(3,530)
Net loss from continuing operations before taxes	**(1,222)**	(5,771)
Income tax benefit from continuing operations	**574**	—
Net loss from continuing operations after taxes	**$ (648)**	$ (5,771)
Net income from discontinued operations, net of taxes	**$ —**	$ 90,881
Net (loss) income	**$ (648)**	$ 85,110
Net earnings per share—basic and diluted		
Continuing operations	**$ (0.01)**	$ (0.10)
Discontinued operations	**$ —**	$ 1.62
Total	**$ (0.01)**	$ 1.52
Weighted average shares outstanding—basic	**56,122**	55,976
Weighted average shares outstanding—diluted	**56,122**	56,033

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 Three Months Ended September 30, 2011	For the Three Months Ended September 30, 2010
Cash flows from operating activities		
Net (loss) income	**$ (648)**	$ 85,110
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Net gain on sale of assets	**—**	(64,980)
Depreciation	**154**	5,552
Amortization of deferred financing fees	**—**	224
Amortization of contract-based intangibles	**—**	2,341
Valuation of derivative instruments	**—**	902
Stock-based compensation	**132**	395
Income on investment in restricted cash in escrow	**(14)**	—
Payments from settlement of derivative instruments	**—**	(1,195)
Changes in operating assets and liabilities:		
Accounts receivable	**3,519**	5,055
Spare parts inventories	**(59)**	(108)
Prepaid expenses and other current assets	**208**	341
Deferred charge	**—**	448
Other noncurrent assets	**(510)**	—
Accounts payable and accrued liabilities	**(44)**	(3,143)
Other noncurrent liabilities	**(1)**	(2)
Net cash provided by operating activities	**2,737**	30,940
Cash flows from investing activities		
Purchases of property, plant, and equipment	**(287)**	(523)
Sale of assets	**—**	127,776
Short-term investments	**(2)**	—
Use of restricted cash and cash equivalents	**—**	1,551
Net cash (used in) provided by investing activities	**(289)**	128,804
Cash flows from financing activity		
Repayment of debt	**—**	(68,893)
Net cash used in financing activity	**—**	(68,893)
Increase in cash and cash equivalents	**2,448**	90,851
Cash and cash equivalents at beginning of period	**89,442**	48,177
Cash and cash equivalents at end of period	**$ 91,890**	$ 139,028
Cash paid for		
Interest	**$ —**	$ 1,661
Noncash transactions		
Accounts payable related to purchases of property, plant, and equipment	**$ 738**	$ 150

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 September 30, 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 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 all 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 September 30, 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 fair value of acquired assets, estimated asset lives, recovery of investments in long-lived assets, utilization of deferred tax assets, and fair value determination of financial instruments 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 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, short-term investments, accounts receivable, and accounts payable. The carrying values are representative of their respective fair value due to the short-term nature of these instruments. The Company's noncurrent financial instruments consisted primarily of restricted cash in escrow whose carrying values are representative of their respective fair value.

2. Property, Plant, and Equipment

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

	Estimated Useful Life	September 30, 2011	June 30, 2011
Systems and equipment	5-30 years	$ 3,488	$ 3,488
Less: accumulated depreciation		2,651	2,498
Net property, plant, and equipment		$ 837	$ 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 were classified as held for sale (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 September 30, 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 September 30, 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.

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 were 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 September 30, 2011.....	Interest expense	Level II	$ —
For the three months ended September 30, 2010.....	Interest expense	Level II	$ (902)

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 2 fair value measurements. Under FASB ASC 820, instruments valued using Level 2 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 $4.0 million as of September 30, 2011 and June 30, 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 September 30, 2011....	Other	Level I	$ 2
For the three months ended September 30, 2010....	Other	Level I	$ —

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 1 measurements are valued based on accessible quoted prices in active markets for identical instruments.

The three levels of the fair value hierarchy are:

> Level 1—Unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets and liabilities;
>
> Level 2—Pricing inputs include quoted prices for similar assets and liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument; and
>
> Level 3—Prices or valuations that require inputs that are both significant to the fair value measurements and unobservable.

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 months September 30, 2011 and 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 discontinued operations for the three months ended September 30, 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 56,279 shares. Unexercised out-of-the-money stock options to purchase a weighted average of 796,297 shares of common stock for both the three months ended September 30, 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 September 30, 2011	For the Three Months Ended September 30, 2010
Numerator:		
Net loss from continuing operations after taxes	$ (648)	$ (5,771)
Net income from discontinued operations after taxes	—	90,881
Net (loss) income	$ (648)	$ 85,110
Denominator:		
Weighted average shares outstanding—basic	56,122	55,976
Weighted average shares outstanding—diluted	56,122	56,033
Net loss per share from continuing operations – basic and diluted	$ (0.01)	$ (0.10)
Net income per share from discontinued operations – basic and diluted	$ —	$ 1.62
Total	$ (0.01)	$ 1.52

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 $0.4 million for the three months ended September 30, 2011 and 2010, respectively, related to the outstanding RSUs. As of September 30, 2011 and June 30, 2011, there was $0.1 million 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 September 30, 2011	For the Three Months Ended September 30, 2010
Statutory rate	35%	35%
Tax at statutory rate	$ (428)	$ (2,020)
Increase (decrease) due to:		
Nondeductible meals and entertainment	1	1
State tax expense	(44)	(218)
Return to provision	(74)	—
Adjustment to valuation allowance	(29)	2,237
Total provision	$ (574)	$ —

8. Income Taxes (Continued)

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

	September 30, 2011	June 30, 2011
Deferred tax assets:		
Interest rate derivatives	$ —	$ —
Contract-based intangible assets	32	33
Nonqualified stock options expense	5,879	5,828
Accrued expenses	195	84
Net operating loss	2,392	437
Contribution carryforward	2	—
Net deferred tax assets	8,500	6,382
Deferred tax liabilities:		
Property, plant, and equipment	1,281	(557)
Prepaid expenses	341	542
Contract-based intangible liabilities	5,313	5,313
Net deferred tax liability	6,935	5,298
Valuation allowance	367	396
Deferred tax asset (liabilities), net	$ 1,198	$ 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 September 30, 2011, the Company generated a tax loss of $5.1 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 feel 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. The Company reversed all of its previously recorded valuation allowance in the prior year.

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 September 30, 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 ended September 30, 2010. The following table presents the results of discontinued operations for Sandersville and Murray I and II.

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

	For the Three Months Ended September 30,2010
Revenues:	
Energy sales	$ 57,306
Capacity sales	26,290
Total revenues	83,596
Operating expenses:	
Cost of fuel	45,590
Operating and maintenance	2,882
Gas transportation	3,430
Selling, general, and administrative	588
Depreciation	2,955
Auxiliary power	1,661
Insurance	342
Total operating expenses	57,448
Operating income	26,148
Other income (expenses):	
Net gain on sale of assets	64,980
Taxes, other than income taxes	(247)
Total other income (expenses)	64,733
Net income before taxes	90,881
Income tax expense	—
Net income	$ 90,881

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 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. 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. 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. The Company expects the transaction to close in the middle of calendar 2012, but may close before or 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

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

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 to implement a 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 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. 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 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. The Company expects the transaction to close in the middle of calendar 2012, but may close before or 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 September 30, 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):

KGen Power Corporation

Notes to Unaudited Condensed Consolidated Financial Statements

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

	September 30, 2011	June 30, 2011
Accounts receivable	$ 1,366	$ 4,000
Spare parts inventories	3,938	3,879
Property, plant, and equipment (net of 40,323 of accumulated depreciation)	247,801	246,777
Other assets	245	245
Assets held for sale	$ 253,350	$ 254,901
Accounts payable and accrued liabilities	$ 7,978	$ 6,479
Contract-based intangibles (net of $5,161 of accumulated amortization)	13,700	13,700
Liabilities associated with assets held for sale	$ 21,678	$ 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	September 30, 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 November 14, 2011, 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 zero and $26.3 million related to capacity sales on the GPC PPA for the three months ended September 30, 2011 and 2010, related to capacity sales on the GPC PPA, respectively.

Recent Events

Changes to the Board

James P. Jenkins resigned from the Board of Directors effective October 20, 2011. Mr. Jenkins cited the desire to focus on other endeavors as the reason for his decision. With Mr. Jenkins' resignation, the Board size was reduced to three members.

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 months ended September 30, 2010.

Consolidated Results of Operations of KGen for the Three Months Ended September 30, 2011 compared to the Three Months Ended September 30, 2010.

The following table sets forth our results of operations for the three months ended September 30, 2011 and 2010, expressed in thousands of dollars.

	For the Three Months Ended September 30, 2011	For the Three Months Ended September 30, 2010	Favorable/(Unfavorable) Change	% Change
Revenues:				
Energy sales	$ 33,247	$ 42,923	$ (9,676)	(23%)
Capacity sales	6,589	2,800	3,789	135%
Total revenues	39,836	45,723	(5,887)	(13%)
Operating expenses:				
Cost of fuel	29,274	35,197	5,923	17%
Operating and maintenance	3,243	4,018	775	19%
Gas transportation	3,069	2,138	(931)	(44%)
Selling, general, and administrative	2,531	2,705	174	6%
Depreciation	154	2,597	2,443	94%
Auxiliary power	954	916	(38)	(4%)
Insurance	491	393	(98)	(25%)
Total operating expenses	39,716	47,964	8,248	17%
Operating income (loss)	120	(2,241)	2,361	105%
Other income (expenses):				
Interest expense	—	(2,786)	2,786	100%
Taxes, other than income taxes	(1,302)	(705)	(597)	(85%)
Other	(40)	(39)	(1)	(3%)
Total other expenses	(1,342)	(3,530)	2,188	62%
Net loss from continuing operations before taxes	$ (1,222)	$ (5,771)	$ 4,549	79%

Operating and Business Metrics We Use to Analyze the Company's Performance for the Three Months Ended September 30, 2011 and September 30, 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 September 30, 2011 and 2010, to the most directly comparable GAAP measures for those periods. See the reconciliation of net loss to adjusted EBITDA on page 18. 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 September 30, 2011	For the Three Months Ended September 30, 2010
Energy sales	$ 33,247	$ 42,923
Less: Cost of fuel	(29,274)	(35,197)
Merchant energy margin	3,973	7,726
Merchant capacity sales	6,589	2,800
Merchant margin	$ 10,562	$ 10,526

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 September 30, 2011	For the Three Months Ended September 30, 2010
Total operating expenses	$ 39,716	$ 47,964
Less: Cost of fuel	(29,274)	(35,197)
Less: Major maintenance expense	—	(1,690)
Add: Gas transportation noncash amortization	—	306
Less: Selling, general, and administrative expense	(2,531)	(2,705)
Less: Depreciation	(154)	(2,597)
Less: D&O insurance expense	(42)	(42)
Add: Taxes, other than income taxes	1,302	705
Adjusted plant expenses	$ 9,017	$ 6,744

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 Three Months Ended September 30, 2011	For the Three Months Ended September 30, 2010
Selling, general, and administrative expense	$ 2,531	$ 2,705
Less: Noncash employee options/awards expense	(132)	(395)
Less: Sale of plant expense	(219)	(5)
Add: D&O insurance expense	42	42
Adjusted corporate expenses	$ 2,222	$ 2,347

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 September 30, 2011	For the Three Months Ended September 30, 2010	Favorable/Unfavorable) Change	% Change
Merchant energy margin	$ 3,973	$ 7,726	$ (3,753)	(49%)
Merchant capacity sales	6,589	2,800	3,789	135%
Merchant margin	10,562	10,526	36	0%
Adjusted plant expenses	9,017	6,744	(2,273)	(34%)
Adjusted plant EBITDA	1,545	3,782	(2,237)	(59%)
Adjusted corporate expenses	2,222	2,347	125	5%
Adjusted EBITDA	$ (677)	$ 1,435	$ (2,112)	(147%)

Selected Operating and Business Metrics

	For the Three Months Ended September 30, 2011	For the Three Months Ended September 30, 2010	Favorable/(Unfavorable) Change	% Change
Selected Financial and Operating Data				
Merchant generation (GWh)	899	1,068	(169)	(16%)
Merchant margin/merchant generation ($/MWh)	$11.75	$9.86	$1.89	19%

Selected Market and Weather Data

	For the Three Months Ended September 30, 2011	For the Three Months Ended September 30, 2010	Change	% Change
Selected Market Data(1)				
Average on-peak market power price—Entergy ($/MWh)	$ 40.88	$ 43.68	$ (2.80)	(6%)
Average Henry Hub gas price ($/MMbtu)	$ 4.13	$ 4.29	$ (0.16)	(4%)
Selected Weather Data				
Actual CDDs(2)	2,998	3,187	(189)	(6%)
Normal CDDs	2,614	2,614	—	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.

Historical Results of Operations of KGen for the Three Months Ended September 30, 2011 compared to the Three Months Ended September 30, 2010.

Merchant margin increased slightly by $36.0 thousand, to $10.6 million for the three months ended September 30, 2011. Merchant margin was negatively impacted by maintenance work at the Hinds facility in September 2011. Merchant generation decreased by 16% from 1,068 GWh to 899 GWh for the three months ended September 30, 2011 as compared to the three months ended September 30, 2010. While the weather was slightly cooler as evidenced by a 6% decrease in CDDs, the decline in merchant generation is due to the drainage/soils maintenance work at the Hinds facility that began in September 2011. The implied merchant spark spread, or merchant margin divided by merchant generation, increased from $9.86 per MWh to $11.75 per MWh. The increase in merchant spark spread can be attributed to higher values hedged at the Plants and lower generation as a result of the maintenance work that began in September 2011.

Adjusted plant expenses increased by $2.3 million, or 34%, to $9.0 million for the three months ended September 30, 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 $0.6 million increase in gas transportation due to TETCO fuel transportation agreements that began this past summer, a $0.7 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 $2.2 million to $1.5 million for the three months ended September 30, 2011.

Adjusted corporate expenses decreased by $0.1 million, or 5%, to $2.2 million for the three months ended September 30, 2011.

As a result of the foregoing, adjusted EBITDA decreased by $2.1 million to a loss of $0.7 million for the three months ended September 30, 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 September 30, 2011	For the Three Months Ended September 30, 2010
Net loss before taxes	$ (1,222)	$ (5,771)
Add: Interest expense	—	2,786
Add: Depreciation	154	2,597
Less: Gas transportation noncash amortization	—	(306)
Add: Other expense	40	39
EBITDA	(1,028)	(655)
Add: Major maintenance expense	—	1,690
Add: Noncash employee options/awards expense	132	395
Add: Sale of plant expense	219	5
Adjusted EBITDA	(677)	1,435
Add: Selling, general, and administrative expense	2,531	2,705
Less: Noncash employee options/awards expense	(132)	(395)
Less: Sale of plant expense	(219)	(5)
Add: D&O insurance expense	42	42
Adjusted plant EBITDA	$ 1,545	$ 3,782

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 September 30, 2011 compared to the three months ended September 30, 2010.

- Interest expense for the three months ended September 30, 2011 was zero compared to $2.8 million for the same period in 2010. The $2.8 million decrease was due to the April 2011 repayment of all of the outstanding debt under the Credit Facility and the termination of the related Swaps.

- Depreciation was $0.2 million and $2.6 million for the three months ended September 30, 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 $0.8 million and $1.6 million, respectively.

- Amortization of contract-based natural gas transportation rights and obligations was zero and $0.3 million for three months ended September 30, 2011 and 2010, respectively, and was recorded as an increase of gas transportation expense. The $0.3 million decrease was due to suspension of amortization on the Hot Spring intangibles due to their held for sale status in April 2011.

- Major maintenance expense for the three months ended September 30, 2011 and 2010 was zero and $1.7 million, respectively. The $1.7 million expense primarily represented a payment to GE as a result of restructuring the long-term service agreements with GE.
- Noncash employee options/awards expense for the three months ended September 30, 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 September 30, 2011 and 2010 were $200.0 thousand and $5.0 thousand, respectively, and were recorded as an increase of selling, general, and administrative expense.
- Selling, general, and administrative expense was $2.5 million and $2.7 million for the three months ended September 30, 2011 and 2010, respectively. The $0.2 million decrease was due to a decrease in RSU expense for the three months ended September 30, 2011 as compared to the same period in the previous year, offset slightly by sale of plant expenses.

Liquidity and Capital Resources

Liquidity Position

Our current cash on hand consists of $91.9 million of unrestricted cash, $43.4 million of restricted cash, and short-term investments of $4.0 million. 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.

In addition, in connection with the 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.

Subsequent to the repayment of all outstanding debt under the 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.

Capital Expenditures and Major Maintenance

Total capital expenditures for the three months ended September 30, 2011 and 2010 were $1.0 and $0.4 million, respectively. We expect to incur approximately $7.0 million in capital expenditures during fiscal 2012, primarily to implement a drainage/soils master plan for the Hinds facility, which is required by the asset purchase agreement with Entergy Mississippi, Inc.

Major maintenance expense was zero and $1.7 million for the three months ended September 30, 2011 and 2010, respectively. The $1.7 million expense primarily represented a payment to GE as a result of restructuring the long-term service agreements with GE.

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 $1.0 million in major maintenance expenses in the remaining nine months of fiscal 2012.

Cash Flow Analysis

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

	For the Three Months Ended September 30, 2011	For the Three Months Ended September 30, 2010
Statements of Cash Flows Data:		
Cash flows provided by (used in):		
Operating activities	$ 2,737	$ 30,940
Investing activities	(289)	128,804
Financing activities	—	(68,893)
Increase in cash and cash equivalents	2,448	90,851
Cash and cash equivalents at beginning of period	89,442	48,177
Cash and cash equivalents at end of period	$ 91,890	$ 139,028

Cash Flows from Operating Activities. Our cash flows provided by operations were $2.7 million for the three months ended September 30, 2011, primarily related to depreciation expense of $0.2 million, stock-based compensation of $0.1 million, an increase in accounts receivable of $3.6 million, and an increase in prepaid expenses and other current assets of $0.2 million, which was offset primarily by a net loss of $0.6 million, $14.0 thousand in income on investment in restricted cash in escrow, a $0.1 million decrease in spare parts inventories, a decrease in other noncurrent assets of $0.5 million, a decrease in accounts payable and accrued liabilities of $44.0 thousand, and a decrease of other noncurrent assets of $1.0 thousand.

Cash Flows from Investing Activities. Our cash flows used in investing activities for the three months ended September 30, 2011 were $0.3 million and related mainly to $0.3 million in purchases of property, plant, and equipment.

Cash Flows from Financing Activity. Our cash flows used in financing activity for the three months ended September 30, 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.