KGEN POWER CORPORATION

Report to Shareholders

for

Quarter Ended March 31, 2012

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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)

	March 31, 2012	June 30, 2011
Assets		
Current assets:		
Cash and cash equivalents	**$ 77,889**	$ 89,442
Restricted cash and cash equivalents	**43,384**	43,384
Restricted cash in escrow	**79,691**	—
Short-term investments	**—**	4,005
Accounts receivable	**33**	994
Prepaid expenses and other current assets	**496**	6,731
Assets held for sale	**257,397**	254,901
Total current assets	**458,890**	399,457
Property, plant, and equipment	**3,488**	3,488
Less: accumulated depreciation	**2,891**	2,498
Net property, plant, and equipment	**597**	990
Restricted cash in escrow	**—**	79,688
Other noncurrent assets	**8,385**	688
Total assets	**$ 467,872**	$ 480,823
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable and accrued liabilities	**$ 2,649**	$ 2,571
Liabilities associated with assets held for sale	**18,988**	20,179
Total current liabilities	**21,637**	22,750
Other noncurrent liabilities	**8**	13
Commitments and contingencies (Note 4)		
Stockholders' equity:		
Common stock (par value $.01; 150,000 shares authorized; 56,129 shares and 56,122 issued and outstanding at March 31, 2012 and June 30, 2011)	**561**	561
Additional paid in capital	**463,472**	463,295
Accumulated deficit	**(17,806)**	(5,796)
Total stockholders' equity	**446,227**	458,060
Total liabilities and stockholders' equity	**$ 467,872**	$ 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 March 31, 2012	For the Three Months Ended March 31, 2011	For the Nine Months Ended March 31, 2012	For the Nine Months Ended March 31, 2011
Revenues:				
Energy sales	**$ 515**	$ 11,785	**$ 39,781**	$ 66,149
Capacity sales	**—**	707	**6,837**	4,116
Other revenue	**527**	—	**527**	—
Total revenues	**1,042**	12,492	**47,145**	70,265
Operating expenses:				
Cost of fuel	**427**	10,667	**34,706**	55,565
Operating and maintenance	**2,154**	7,879	**9,647**	16,059
Gas transportation	**2,409**	1,655	**7,889**	4,037
Selling, general, and administrative	**2,424**	3,824	**7,148**	9,525
Depreciation	**88**	2,548	**394**	7,733
Auxiliary power	**752**	718	**2,343**	2,233
Insurance	**453**	389	**1,405**	1,165
Total operating expenses	**8,707**	27,680	**63,532**	96,317
Operating loss	**(7,665)**	(15,188)	**(16,387)**	(26,052)
Other expenses:				
Interest expense	**—**	(1,802)	**—**	(6,393)
Taxes, other than income taxes	**(1,198)**	(1,283)	**(3,212)**	(2,367)
Other	**(69)**	(52)	**(172)**	(125)
Total other expenses	**(1,267)**	(3,137)	**(3,384)**	(8,885)
Net loss from continuing operations before taxes	**(8,932)**	(18,325)	**(19,771)**	(34,937)
Income tax benefit from continuing operations	**3,461**	—	**7,761**	25,503
Net loss from continuing operations after taxes	**(5,471)**	(18,325)	**(12,010)**	(9,434)
Net income (loss) from discontinued operations, net of taxes	**—**	(3,981)	**—**	49,787
Net (loss) income	**$ (5,471)**	$ (22,306)	**$ (12,010)**	$ 40,353
Net earnings per share – basic and diluted				
Continuing operations	**(0.10)**	(0.33)	**(0.21)**	(0.17)
Discontinued operations	**—**	(0.07)	**—**	0.89
Total	**$ (0.10)**	$ (0.40)	**$ (0.21)**	$ 0.72
Weighted average shares outstanding—basic	**56,124**	56,025	**56,123**	56,007
Weighted average shares outstanding—diluted	**56,124**	56,025	**56,123**	56,122

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 Nine Months Ended March 31, 2012	For the Nine Months Ended March 31, 2011
Cash flows from operating activities		
Net (loss) income	**$ (12,010)**	$ 40,353
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:		
Net gain on sale of assets	**—**	(64,991)
Depreciation	**394**	14,639
Amortization of deferred financing fees	**—**	672
Amortization of contract-based intangibles	**—**	5,261
Valuation of derivative instruments	**—**	1,117
Stock-based compensation	**210**	1,100
Income on investment in restricted cash in escrow	**(3)**	—
Payments from settlement of derivative instruments	**—**	(3,583)
Changes in operating assets and liabilities:		
Accounts receivable	**4,961**	23,064
Spare parts inventories	**(129)**	(93)
Prepaid expenses and other current assets	**6,235**	1,128
Deferred charge	**—**	661
Other noncurrent assets	**(7,697)**	—
Accounts payable and accrued liabilities	**(2,229)**	(2,655)
Other noncurrent liabilities	**(5)**	(5)
Net cash (used in) provided by operating activities	**(10,273)**	16,668
Cash flows from investing activities		
Purchases of property, plant, and equipment	**(5,252)**	(2,138)
Sale of assets	**—**	127,787
Short-term investments	**4,005**	(4,002)
Investment in restricted cash and cash equivalents	**—**	(193)
Net cash (used in) provided by investing activities	**(1,247)**	121,454
Cash flows from financing activities		
Repayment of debt	**—**	(69,589)
Repayment of debt	**(33)**	**—**
Net cash used in financing activities	**(33)**	(69,589)
(Decrease) increase in cash and cash equivalents	**(11,553)**	68,533
Cash and cash equivalents at beginning of period	**89,442**	48,177
Cash and cash equivalents at end of period	**$ 77,889**	$ 116,710
Cash paid for		
Interest	**$ —**	$ 4,604
Noncash transactions		
Accounts payable related to purchases of property, plant, and equipment	**$ 1,116**	$ 470

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 March 31, 2012, 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 March 31, 2012 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	March 31, 2012	June 30, 2011
Systems and equipment	3-6 years	$ 3,488	$ 3,488
Less: accumulated depreciation		2,891	2,498
Net property, plant, and equipment		$ 597	$ 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 March 31, 2012 and June 30, 2011. The balance securing the outstanding letters of credit was recorded in restricted cash and cash equivalents.

There was $79.7 million in restricted cash in escrow, at both March 31, 2012 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 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 March 31, 2011	Interest expense	Level II	$ (109)
For the nine months ended March 31, 2011............	Interest expense	Level II	$(1,117)

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 March 31, 2012 and June 30, 2011. The short-term investments were redeemed on December 14, 2011 and are currently included in unrestricted cash as of March 31, 2012. 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 March 31, 2012	Other	Level I	$ —
For the nine months ended March 31, 2012............	Other	Level I	$ 4

The Company evaluated the requirements of FASB ASC 820 and believes the short-term investments are valued using Level I 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 nine months ended March 31, 2012 and 2011, and the net loss from discontinued operations for the three months ended March 31, 2011, 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 nine months ended March 31, 2011, 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 116,027 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 nine months ended March 31, 2012 and 2011, 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 March 31, 2012	For the Three Months Ended March 31, 2011	For the Nine Months Ended March 31, 2012	For the Nine Months Ended March 31, 2011
Numerator:				
Net loss from continuing operations after taxes	$ (5,471)	$ (18,325)	$ (12,010)	$ (9,434)
Net (loss) income from discontinued operations after taxes	—	(3,981)	—	49,787
Net (loss) income	$ (5,471)	$ (22,306)	$ (12,010)	$ 40,353
Denominator:				
Weighted average shares outstanding—basic	56,124	56,025	56,123	56,007
Weighted average shares outstanding—diluted	56,124	56,025	56,123	56,122
Net loss per share from continuing operations – basic and diluted	$ (0.10)	$ (0.33)	$ (0.21)	$ (0.17)
Net (loss) income from discontinued operations – basic and diluted	—	(0.07)	—	0.89
Total	$ (0.10)	$ (0.40)	$ (0.21)	$ 0.72

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 $2.0 thousand and $0.2 million for the three and nine months ended March 31, 2012, respectively, and $0.3 million and $1.1 million for the three and nine months ended March 31, 2011, respectively, related to the outstanding RSUs. As of March 31, 2012 and June 30, 2011, there was zero 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 March 31, 2012	For the Three Months Ended March 31, 2011	For the Nine Months Ended March 31, 2012	For the Nine Months Ended March 31, 2011
Continuing Operations:				
Statutory rate	35%	35%	35%	35%
Tax at statutory rate	$ (3,126)	$ (6,414)	$ (6,920)	$ (12,228)
Increase (decrease) due to:				
Nondeductible meals and entertainment	3	2	8	7
State tax (benefit) expense	(338)	(711)	(746)	(1,403)
Return to provision	—	(20)	(74)	(20)
Adjustment for intraperiod allocation	—	—	—	(11,859)
Adjustment to valuation allowance	—	7,143	(29)	—
Total provision	$ (3,461)	$ —	$ (7,761)	$ (25,503)
Discontinued Operations:				
Total provision	$ —	$ —	$ —	$ (25,503)

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

	March 31, 2012	June 30, 2011
Deferred tax assets:		
Contract-based intangible assets	$ 31	$ 33
Nonqualified stock options expense	5,910	5,828
Accrued expenses	195	84
Net operating loss	13,876	437
Contribution carryforward	2	—
Net deferred tax assets	20,014	6,382
Deferred tax liabilities:		
Property, plant, and equipment	5,866	(557)
Prepaid expenses	81	542
Contract-based intangible liabilities	5,313	5,313
Net deferred tax liability	11,260	5,298
Valuation allowance	369	396
Deferred tax asset (liabilities), net	$ 8,385	$ 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 March 31, 2012, the Company generated a tax loss of $34.8 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.

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 March 31, 2012.

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 nine months ended March 31, 2011. The following table presents the results of discontinued operations for Sandersville and Murray I and II.

	For the Three Months Ended March 31, 2011	For the Nine Months Ended March 31, 2011
Revenues:		
Energy sales	$ 9,929	$ 71,688
Capacity sales	5,688	37,153
Total revenues	15,617	108,841
Operating expenses:		
Cost of fuel	9,619	61,524
Operating and maintenance	4,206	13,978
Gas transportation	2,754	9,394
Selling, general, and administrative	168	924
Depreciation	992	6,905
Auxiliary power	1,348	4,276
Insurance	271	820
Total operating expenses	19,358	97,821
Operating (loss) income	(3,741)	11,020
Other income (expenses):		
Net gain on sale of assets	—	64,991
Taxes, other than income taxes	(240)	(721)
Total other (expenses) income	(240)	64,270
Net (loss) income before taxes	(3,981)	75,290
Income tax benefit (expense)	—	(25,503)
Net (loss) income	$ (3,981)	$ 49,787

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 results were received on April 6, 2012 with the results indicating supplemental upgrades of approximately $0.6 million. 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. The Mississippi Public Service Commission issued an order granting the certificate of public convenience and necessity at the February 28, 2012 hearing. A retail cost recovery proceeding related to the Hinds transaction is pending at 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. Both Entergy Mississippi and the Company have satisfied their obligations under the HSR act, and the review of the transaction by the DOJ is ongoing. 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 $6.5 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.

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

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 results were received on April 6, 2012, and updated on May 8, 2012, with the results indicating supplemental upgrades of up to approximately $1.0 million. 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 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. Entergy filed supplemental testimony on April 16, 2012, with the transmission study results. 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. Both Entergy Arkansas and the Company have satisfied their obligations under the HSR act, and the review of the transaction by the DOJ is ongoing. 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.

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

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 March 31, 2012 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):

	March 31, 2012	June 30, 2011
Accounts receivable	$ —	$ 4,000
Spare parts inventories	4,008	3,879
Property, plant, and equipment (net of $40,323 of accumulated depreciation)	253,144	246,777
Other assets	245	245
Assets held for sale	$ 257,397	$ 254,901
Accounts payable and accrued liabilities	$ 5,288	$ 6,479
Contract-based intangibles (net of $5,161 of accumulated amortization)	13,700	13,700
Liabilities associated with assets held for sale	$ 18,988	$ 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	March 31, 2012	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 May 15, 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 $5.7 million and $37.1 million related to capacity sales on the GPC PPA for the three and nine months ended March 31, 2011.

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 nine months ended March 31, 2011.

Consolidated Results of Operations of KGen for the Three Months Ended March 31, 2012 compared to the Three Months Ended March 31, 2011.

The following table sets forth our results of operations for the three months ended March 31, 2012 and 2011, expressed in thousands of dollars.

	For the Three Months Ended March 31, 2012	For the Three Months Ended March 31, 2011	Favorable/(Unfavorable) Change	% Change
Revenues:				
Energy sales	$ 515	$ 11,785	$ (11,270)	(96%)
Capacity sales	—	707	(707)	(100%)
Other revenue	527	—	527	100%
Total revenues	1,042	12,492	(11,450)	(92%)
Operating expenses:				
Cost of fuel	427	10,667	10,240	96%
Operating and maintenance	2,154	7,879	5,725	73%
Gas transportation	2,409	1,655	(754)	(46%)
Selling, general, and administrative	2,424	3,824	1,400	37%
Depreciation	88	2,548	2,460	97%
Auxiliary power	752	718	(34)	(5%)
Insurance	453	389	(64)	(16%)
Total operating expenses	8,707	27,680	18,973	69%
Operating loss	(7,665)	(15,188)	7,523	50%
Other expenses:				
Interest expense	—	(1,802)	1,802	100%
Taxes, other than income taxes	(1,198)	(1,283)	85	7%
Other	(69)	(52)	(17)	(33%)
Total other expenses	(1,267)	(3,137)	1,870	60%
Net loss from continuing operations before taxes	$ (8,932)	$ (18,325)	$ 9,393	51%

Operating and Business Metrics We Use to Analyze the Company's Performance for the Three Months Ended March 31, 2012 and March 31, 2011

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 March 31, 2012 and 2011, to the most directly comparable GAAP measures for those periods. See the reconciliation of net loss to adjusted EBITDA on page 19. 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 March 31, 2012	For the Three Months Ended March 31, 2011
Energy sales	$ 515	$ 11,785
Less: Cost of fuel	(427)	(10,667)
Merchant energy margin	88	1,118
Merchant capacity sales	—	707
Merchant margin	$ 88	$ 1,825

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 March 31, 2012	For the Three Months Ended March 31, 2011
Total operating expenses	$ 8,707	$ 27,680
Less: Cost of fuel	(427)	(10,667)
Less: Major maintenance expense	(32)	(2,111)
Add: Gas transportation noncash amortization	—	306
Less: Selling, general, and administrative expense	(2,424)	(3,824)
Less: Depreciation	(88)	(2,548)
Less: D&O insurance expense	(42)	(41)
Add: Taxes, other than income taxes	1,198	1,283
Adjusted plant expenses	$ 6,892	$ 10,078

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 March 31, 2012	For the Three Months Ended March 31, 2011
Selling, general, and administrative expense	$ 2,424	$ 3,824
Less: Noncash employee options/awards expense	(3)	(275)
Less: Costs associated with plant sales	(159)	(862)
Add: D&O insurance expense	42	41
Adjusted corporate expenses	$ 2,304	$ 2,728

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 March 31, 2012	For the Three Months Ended March 31, 2011	Favorable/Unfavorable)	
			Change	% Change
Merchant energy margin	$ 88	$ 1,118	$ (1,030)	(92%)
Merchant capacity sales	—	707	(707)	(100%)
Merchant margin	88	1,825	(1,737)	(95%)
Adjusted plant expenses	6,892	10,078	3,186	32%
Adjusted plant EBITDA	(6,804)	(8,253)	1,449	18%
Adjusted corporate expenses	2,304	2,728	424	16%
Adjusted EBITDA	$ (9,108)	$(10,981)	$ 1,873	17%

Selected Operating and Business Metrics

	For the Three Months Ended March 31, 2012	For the Three Months Ended March 31, 2011	Favorable/(Unfavorable) Change	% Change
Selected Financial and Operating Data				
Merchant generation (GWh)	33	334	(301)	(90%)
Merchant margin/merchant generation ($/MWh)	$ 2.67	$ 5.46	$ (2.79)	(51%)

Selected Market and Weather Data

	For the Three Months Ended March 31, 2012	For the Three Months Ended March 31, 2011	Change	% Change
Selected Market Data(1)				
Average on-peak market power price—Entergy ($/MWh)	$ 23.39	$ 34.63	$ (11.24)	(32%)
Average Henry Hub gas price ($/MMbtu)	$ 2.46	$ 4.16	$ (1.70)	(41%)
Selected Weather Data				
Actual HDDs(3)	1,964	2,978	(1,014)	(34%)
Normal HDDs	3,018	3,006	12	0%

Notes:

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

(2) 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 March 31, 2012 compared to the Three Months Ended March 31, 2011.

Merchant margin decreased by $1.7 million, to $0.1 million for the three months ended March 31, 2012. Merchant generation decreased by 90% from 334 GWh to 33 GWh for the three months ended March 31, 2012 as compared to the three months ended March 31, 2011. The decline in merchant margin and merchant generation was primarily due to scheduled maintenance outages, other plant activities undertaken in preparation for the sales transaction to Entergy, and a warmer than normal winter, as evidenced by the 34% decrease in HDDs. The implied merchant spark spread, or merchant margin divided by merchant generation, decreased from $5.46 per MWh to $2.67 per MWh. Natural gas prices for this period were also 41% lower than the three months ended March 31, 2011.

Adjusted plant expenses decreased by $3.2 million, or 32%, to $6.9 million for the three months ended March 31, 2012. The decrease was primarily comprised of a $3.6 million decrease in operating and maintenance expenses, a $0.4 million increase in gas transportation, and a $0.1 million increase in insurance expense. The $3.6 million decrease was due to prior year repairs to one of the Hot Spring gas turbine compressors and the inlet chiller system. This decrease was slightly offset by $1.0 million of insurance proceeds received during the three months ended March 31, 2012 related to the prior year repairs to the inlet chiller system. The $0.4 million increase in gas transportation was primarily due to TETCO fuel transportation agreements that began this past summer.

As a result of the foregoing changes in merchant margin and adjusted plant expenses, adjusted plant EBITDA increased by $1.4 million to a loss of $6.8 million for the three months ended March 31, 2012.

Adjusted corporate expenses decreased by $0.4 million, or 16%, to $2.3 million for the three months ended March 31, 2012. The $0.4 million decrease was due primarily to a decrease in legal expenses.

As a result of the foregoing, adjusted EBITDA increased by $1.9 million to a loss of $9.1 million for the three months ended March 31, 2012.

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 March 31, 2012	For the Three Months Ended March 31, 2011
Net loss before taxes	$ (8,932)	$ (18,325)
Less: Other revenue	(527)	—
Add: Interest expense	—	1,802
Add: Depreciation	88	2,548
Less: Gas transportation noncash amortization	—	(306)
Add: Other expenses	69	52
EBITDA	(9,302)	(14,229)
Add: Major maintenance expense	32	2,111
Add: Noncash employee options/awards expense	3	275
Add: Costs associated with plant sales	159	862
Adjusted EBITDA	(9,108)	(10,981)
Add: Selling, general, and administrative expense	2,424	3,824
Less: Noncash employee options/awards expense	(3)	(275)
Less: Costs associated with plant sales	(159)	(862)
Add: D&O insurance expense	42	41
Adjusted plant EBITDA	$ (6,804)	$ (8,253)

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 March 31, 2012 compared to the three months ended March 31, 2011.

- Other revenue for the three months ended March 31, 2012 was $0.5 million compared to zero for the same period in 2011. We received $0.5 million of business interruption insurance proceeds for reimbursement of potential revenues lost during the repairs to the Hot Spring inlet chiller system in the prior period.

- Interest expense for the three months ended March 31, 2012 was zero compared to $1.8 million for the same period in 2011. 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 $0.1 million and $2.5 million for the three months ended March 31, 2012 and 2011, 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 March 31, 2012 and 2011, 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 March 31, 2012 and 2011 was $32.0 thousand and $2.1 million, respectively. The $32.0 thousand expense in the current period related to major maintenance at the Hot Spring facility. The $2.1 million expense in prior period related to major maintenance at the Hot Spring facility.

- Noncash employee options/awards expense for the three months ended March 31, 2012 and 2011 was $3.0 thousand and $0.3 million, respectively, and was recorded as an increase of selling, general, and administrative expense.

- Costs associated with plant sales for the three months ended March 31, 2012 and 2011 were $0.2 million and $0.9 million, respectively, and were recorded as an increase of selling, general, and administrative expense.
- Selling, general, and administrative expense was $2.4 million and $3.8 million for the three months ended March 31, 2012 and 2011, respectively. The $1.4 million decrease was due to a $0.3 million decrease in RSU expense, a $0.4 million decrease in legal expenses, and a $0.7 million decrease in costs associated with plant sales.

Consolidated Results of Operations of KGen for the Nine Months Ended March 31, 2012 compared to the Nine Months Ended March 31, 2011.

The following table sets forth our results of operations for the nine months ended March 31, 2012 and 2011, expressed in thousands of dollars.

	For the Nine Months Ended March 31, 2012	For the Nine Months Ended March 31, 2011	Favorable/(Unfavorable) Change	% Change
Revenues:				
Energy sales	$ 39,781	$ 66,149	$ (26,368)	(40%)
Capacity sales	6,837	4,116	2,721	66%
Other revenue	527	—	527	100%
Total revenues	47,145	70,265	(23,120)	(33%)
Operating expenses:				
Cost of fuel	34,706	55,565	20,859	38%
Operating and maintenance	9,647	16,059	6,412	40%
Gas transportation	7,889	4,037	(3,852)	(95%)
Selling, general, and administrative	7,148	9,525	2,377	25%
Depreciation	394	7,733	7,339	95%
Auxiliary power	2,343	2,233	(110)	(5%)
Insurance	1,405	1,165	(240)	(21%)
Total operating expenses	63,532	96,317	32,785	34%
Operating loss	(16,387)	(26,052)	9,665	37%
Other expenses:				
Interest expense	—	(6,393)	6,393	100%
Taxes, other than income taxes	(3,212)	(2,367)	(845)	(36%)
Other	(172)	(125)	(47)	(38%)
Total other expenses	(3,384)	(8,885)	5,501	62%
Net loss from continuing operations before taxes	$ (19,771)	$ (34,937)	$ 15,166	43%

Operating and Business Metrics We Use to Analyze the Company's Performance for the Nine Months Ended March 31, 2012 and March 31, 2011

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 nine months ended March 31, 2012 and 2011, to the most directly comparable GAAP measures for those periods. See the reconciliation of net loss to adjusted EBITDA on page 23. 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 Nine Months Ended March 31, 2012	For the Nine Months Ended March 31, 2011
Energy sales	$ 39,781	$ 66,149
Less: Cost of Fuel	(34,706)	(55,565)
Merchant energy margin	5,075	10,584
Merchant capacity sales	6,837	4,116
Merchant margin	$ 11,912	$ 14,700

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 Nine Months Ended March 31, 2012	For the Nine Months Ended March 31, 2011
Total operating expenses	$ 63,532	$ 96,317
Less: Cost of fuel	(34,706)	(55,565)
Less: Major maintenance expense	(464)	(4,398)
Add: Gas transportation noncash amortization	—	917
Less: Selling, general, and administrative expense	(7,148)	(9,525)
Less: Depreciation	(394)	(7,733)
Less: D&O insurance expense	(127)	(126)
Add: Taxes, other than income taxes	3,212	2,367
Adjusted plant expenses	$ 23,905	$ 22,254

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 Nine Months Ended March 31, 2012	For the Nine Months Ended March 31, 2011
Selling, general, and administrative expense	$ 7,148	$ 9,525
Less: Noncash employee options/awards expense	(211)	(1,101)
Add: Employee severance expense	—	6
Less: Costs associated with plant sales	(600)	(1,148)
Add: D&O insurance expense	127	126
Adjusted corporate expenses	$ 6,464	$ 7,408

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 Nine Months Ended March 31, 2012	For the Nine Months Ended March 31, 2011	Favorable/Unfavorable) Change	% Change
Merchant energy margin	$ 5,075	$ 10,584	$ (5,509)	(52%)
Merchant capacity sales	6,837	4,116	2,721	66 %
Merchant margin	11,912	14,700	(2,788)	(19%)
Adjusted plant expenses	23,905	22,254	(1,651)	(7%)
Adjusted plant EBITDA	(11,993)	(7,554)	(4,439)	(59%)
Adjusted corporate expenses	6,464	7,408	944	13%
Adjusted EBITDA	$ (18,457)	$(14,962)	$ (3,495)	(23%)

Selected Operating and Business Metrics

	For the Nine Months Ended March 31, 2012	For the Nine Months Ended March 31, 2011	Favorable/(Unfavorable) Change	% Change
Selected Financial and Operating Data				
Merchant generation (GWh)	1,117	1,742	(625)	(36%)
Merchant margin/merchant generation ($/MWh)	$ 10.66	$ 8.44	$ 2.22	26%

Selected Market and Weather Data

	For the Nine Months Ended March 31, 2012	For the Nine Months Ended March 31, 2011	Change	% Change
Selected Market Data(1)				
Average on-peak market power price—Entergy ($/MWh)	$ 31.10	$ 36.89	$ (5.79)	(16%)
Average Henry Hub gas price ($/MMbtu)	$ 3.30	$ 4.08	$ (0.78)	(19%)
Selected Weather Data				
Actual CDDs(2)	3,112	3,354	(242)	(7%)
Normal CDDs	2,672	2,672	—	0%
Actual HDDs(3)	3,637	4,958	(1,321)	(27%)
Normal HDDs	4,962	4,950	12	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 Nine Months Ended March 31, 2012 compared to the Nine Months Ended March 31, 2011.

Merchant margin decreased $2.8 million, to $11.9 million for the nine months ended March 31, 2012. Merchant generation decreased by 36% from 1,742 GWh to 1,117 GWh for the nine months ended March 31, 2012 as compared to the nine months ended March 31, 2011. While the summer 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 $8.44 per MWh to $10.66 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 $1.7 million, or 7%, to $23.9 million for the nine months ended March 31, 2012. The increase was primarily comprised of a $2.9 million increase in gas transportation, a $2.7 million decrease in operating and maintenance expenses, a $1.1 million increase in property taxes, and a $0.3 million increase in insurance expense. The $2.9 million increase in gas transportation was primarily due to TETCO fuel transportation agreements that began this past summer. The $2.7 million decrease in operating and maintenance was primarily due to prior year repairs to one of the Hot Spring gas turbine compressors and the inlet chiller system. This decrease was slightly offset by $1.0 million of insurance proceeds received during the nine months ended March 31, 2012 related to the prior year repairs to the inlet chiller system. The $1.1 million increase in property taxes at Hinds was due primarily to the expiration of the payments in lieu of taxes agreement.

As a result of the foregoing changes in merchant margin and adjusted plant expenses, adjusted plant EBITDA decreased by $4.4 million to a loss of $12.0 million for the nine months ended March 31, 2012.

Adjusted corporate expenses decreased by $0.9 million, or 13%, to $6.5 million for the nine months ended March 31, 2012. The $0.9 million decrease was due primarily to a decrease in legal expenses.

As a result of the foregoing, adjusted EBITDA decreased by $3.5 million to a loss of $18.5 million for the nine months ended March 31, 2012.

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 Nine Months Ended March 31, 2012	**For the Nine Months Ended March 31, 2011**
Net loss before taxes	$ (19,771)	$ (34,937)
Less: Other revenue	(527)	—
Add: Interest expense	—	6,393
Add: Depreciation	394	7,733
Less: Gas transportation noncash amortization	—	(917)
Add: Other expenses	172	125
EBITDA	(19,732)	(21,603)
Add (Less): Major maintenance expense	464	4,398
Add: Noncash employee options/awards expense	211	1,101
Less: Employee severance expense	—	(6)
Add: Costs associated with plant sales	600	1,148
Adjusted EBITDA	(18,457)	(14,962)
Add: Selling, general, and administrative expense	7,148	9,525
Less: Noncash employee options/awards expense	(211)	(1,101)
Add: Employee severance expense	—	6
Less: Costs associated with plant sales	(600)	(1,148)
Add: D&O insurance expense	127	126
Adjusted plant EBITDA	$ (11,993)	$ (7,554)

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 nine months ended March 31, 2012 compared to the nine months ended March 31, 2011.

- Other revenue for the nine months ended March 31, 2012 was $0.5 million compared to zero for the same period in 2011. We received $0.5 million of business interruption insurance proceeds for reimbursement of potential revenues lost during the repairs to the Hot Spring inlet chiller system in the prior period.

- Interest expense for the nine months ended March 31, 2012 was zero compared to $6.4 million for the same period in 2011. The $6.4 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 $0.4 million and $7.7 million for the nine months ended March 31, 2012 and 2011, respectively. The $7.3 million decrease was due to the suspension of depreciation related to the Hinds and Hot Spring plants in the amounts of $2.6 million and $4.7 million, respectively, due to their held for sale status.

- Amortization of contract-based natural gas transportation rights and obligations was zero and $0.9 million for the nine months ended March 31, 2012 and 2011, respectively, and was recorded as an increase of gas transportation expense. The $0.9 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 nine months ended March 31, 2012 and 2011 was $0.5 million and $4.4 million, respectively. The $0.5 million expense in the current period related to major maintenance at the Hot Spring facility. The $4.4 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 $2.3 million performed at the Hot Spring facility.

- Noncash employee options/awards expense for the nine months ended March 31, 2012 and 2011 was $0.2 million and $1.1 million, respectively, and was recorded as an increase of selling, general, and administrative expense.

- Costs associated with plant sales for the nine months ended March 31, 2012 and 2011 were $0.6 million and $1.1 million, respectively, and were recorded as an increase of selling, general, and administrative expense.

- Selling, general, and administrative expense was $7.1 million and $9.5 million for the nine months ended March 31, 2012 and 2011, respectively. The $2.4 million decrease was primarily due to a $0.9 million decrease in RSU expense, a $0.9 million decrease in legal expenses, and a $0.5 million decrease in costs associated with plant sales.

Liquidity and Capital Resources

Liquidity Position

As of March 31, 2012, our current cash on hand consisted of $77.9 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 securing the outstanding letters of credit 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 nine months ended March 31, 2012 were $6.4 million. We expect to incur approximately $6.5 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 $32.0 thousand and $2.1 million for the three months ended March 31, 2012 and 2011, respectively. The $32.0 thousand expense in the current period related to major maintenance at the Hot Spring facility. The $2.1 million expense was related to major maintenance performed at the Hot Spring facility. Major maintenance expense was $0.5 million and $4.4 million for the nine months ended March 31, 2012 and 2011, respectively. The $0.5 million expense in the current period related to major maintenance at the Hot Spring facility. The $4.4 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 $2.3 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 do not expect to incur any additional major maintenance expenses in the remaining three months of fiscal 2012.

Cash Flow Analysis

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

	For the Nine Months Ended March 31, 2012	For the Nine Months Ended March 31, 2011
Statements of Cash Flows Data:		
Cash flows provided by (used in):		
Operating activities	$ (10,273)	$ 16,668
Investing activities	(1,247)	121,454
Financing activities	(33)	(69,589)
(Decrease) increase in cash and cash equivalents	(11,553)	68,533
Cash and cash equivalents at beginning of period	89,442	48,177
Cash and cash equivalents at end of period	$ 77,889	$ 116,710

Cash Flows from Operating Activities. Our cash flows used in operations were $10.3 million for the nine months ended March 31, 2012, related primarily to a net loss of $12.0 million, a $0.1 million decrease in spare parts inventories, a decrease in other noncurrent assets of $7.7 million, and a decrease in accounts payable and accrued liabilities of $2.2 million which was offset primarily by depreciation expense of $0.4 million, stock-based compensation of $0.2 million, an increase in accounts receivable of $5.0 million, and an increase in prepaid expenses and other current assets of $6.2 million.

Cash Flows from Investing Activities. Our cash flows used in investing activities for the nine months ended March 31, 2012 were $1.2 million and related mainly to $5.3 million in purchases of property, plant, and equipment, which was offset by a redemption of short-term investments of $4.0 million.

Cash Flows from Financing Activities. Our cash flows used in financing activities for the nine months ended March 31, 2012 was $33.0 thousand.

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.