KGEN POWER CORPORATION

Report to Shareholders

for

Quarter Ended March 31, 2011

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PART I—FINANCIAL INFORMATION

Number 1. Unaudited Condensed Consolidated Financial Statements and Notes

KGen Power Corporation

Condensed Consolidated Balance Sheets

(in thousands, except per share amounts)

(unaudited)

	March 31, 2011	June 30, 2010
Assets		
Current assets:		
Cash and cash equivalents	**$ 116,710**	$ 48,177
Restricted cash and cash equivalents	**7,360**	7,167
Short-term investments	**4,002**	—
Accounts receivable	**226**	26,329
Spare parts inventories	**3,868**	8,009
Prepaid expenses and other current assets	**819**	1,947
Assets held for sale	**353,627**	63,580
Total current assets	**486,612**	155,209
Property, plant, and equipment	**290,231**	637,344
Less: accumulated depreciation	**41,925**	73,819
Net property, plant, and equipment	**248,306**	563,525
Contract-based intangibles (net of $0 and $36,154 of accumulated amortization, respectively)	**—**	47,388
Deferred charge	**—**	2,575
Deferred financing fees (net of $3,704 and $3,032 of accumulated amortization, respectively)	**2,560**	3,232
Other noncurrent assets	**245**	325
Total assets	**$ 737,723**	$ 772,254
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable and accrued liabilities	**$ 11,651**	$ 20,983
Current portion of long-term debt	**1,393**	2,000
Liabilities associated with assets held for sale	**6,557**	784
Total current liabilities	**19,601**	23,767
Long-term debt	**132,018**	201,000
Contract-based intangibles (net of $5,065 and $4,370 of accumulated amortization, respectively)	**13,796**	15,129
Other noncurrent liabilities	**1,214**	2,717
Commitments and contingencies (Note 6)		
Stockholders' equity:		
Common stock (par value $.01; 150,000 shares authorized; 56,031 and 55,974 shares issued and outstanding at March 31, 2011 and June 30, 2010, respectively)	**560**	560
Additional paid in capital	**743,577**	742,477
Accumulated deficit	**(173,043)**	(213,396)
Total stockholders' equity	**571,094**	529,641
Total liabilities and stockholders' equity	**$ 737,723**	$ 772,254

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, 2011	For the Three Months Ended March 31, 2010	For the Nine Months Ended March 31, 2011	For the Nine Months Ended March 31, 2010
Revenues:				
Energy sales	**$ 11,785**	$ 8,879	**$ 66,149**	$ 41,888
Capacity sales	**707**	442	**4,116**	939
Total revenues	**12,492**	9,321	**70,265**	42,827
Operating expenses:				
Cost of fuel	**10,667**	8,031	**55,565**	34,726
Operating and maintenance	**7,879**	18,233	**16,059**	24,013
Gas transportation	**1,655**	483	**4,037**	2,229
Selling, general, and administrative	**3,824**	3,052	**9,525**	8,467
Depreciation	**2,548**	2,534	**7,733**	7,676
Auxiliary power	**718**	532	**2,233**	2,007
Insurance	**389**	467	**1,165**	1,386
Total operating expenses	**27,680**	33,332	**96,317**	80,504
Operating loss	**(15,188)**	(24,011)	**(26,052)**	(37,677)
Other expenses:				
Interest expense	**(1,802)**	(2,994)	**(6,393)**	(9,182)
Taxes, other than income taxes	**(1,283)**	(589)	**(2,367)**	(1,567)
Other	**(52)**	(57)	**(125)**	(177)
Total other expenses	**(3,137)**	(3,640)	**(8,885)**	(10,926)
Net loss from continuing operations before taxes	**(18,325)**	(27,651)	**(34,937)**	(48,603)
Income tax benefit from continuing operations	—	—	**25,503**	3,035
Net income (loss) from continuing operations after taxes	**$ (18,325)**	$ (27,651)	**$ (9,434)**	$ (45,568)
Net (loss) income from discontinued operations after taxes	**$ (3,981)**	$ (7,787)	**$ 49,787**	$ 4,790
Net (loss) income	**$ (22,306)**	$ (35,438)	**$ 40,353**	$ (40,778)
Net (loss) income per share—basic and diluted				
Continuing operations	**$ (0.33)**	$ (0.49)	**$ (0.17)**	$ (0.81)
Discontinued operations	**$ (0.07)**	$ (0.14)	**$ 0.89**	$ 0.09
Total	**$ (0.40)**	$ (0.63)	**$ 0.72**	$ (0.73)
Weighted average shares outstanding—basic	**56,025**	55,968	**56,007**	55,968
Weighted average shares outstanding—diluted	**56,025**	55,968	**56,122**	55,968

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, 2011	For the Nine Months Ended March 31, 2010
Cash flows from operating activities		
Net income (loss)	**$ 40,353**	$ (40,778)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Net gain on sale of assets	**(64,991)**	—
Depreciation	**14,639**	18,264
Amortization of deferred financing fees	**672**	671
Amortization of contract-based intangibles	**5,261**	6,985
Valuation of derivative instruments	**1,117**	3,236
Stock-based compensation	**1,100**	867
Payments from settlement of derivative instruments	**(3,583)**	(4,772)
Changes in operating assets and liabilities:		
Accounts receivable	**23,064**	17,942
Spare parts inventories	**(93)**	(1,554)
Prepaid expenses and other current assets	**1,128**	(1,370)
Deferred charge	**661**	7
Accounts payable and accrued liabilities	**(2,655)**	(5,308)
Other noncurrent assets	**—**	(57)
Other noncurrent liabilities	**(5)**	(5)
Net cash provided by (used in) operating activities	**16,668**	(5,872)
Cash flows from investing activities		
Purchases of property, plant, and equipment	**(2,138)**	(1,167)
Sale of assets	**127,787**	—
Short-term investments	**(4,002)**	—
(Investment in) use of restricted cash and cash equivalents	**(193)**	21,600
Net cash provided by investing activities	**121,454**	20,433
Cash flows from financing activity		
Repayment of debt	**(69,589)**	(1,500)
Net cash used in financing activity	**(69,589)**	(1,500)
Increase in cash and cash equivalents	**68,533**	13,061
Cash and cash equivalents at beginning of period	**48,177**	40,663
Cash and cash equivalents at end of period	**$ 116,710**	$ 53,724
Cash paid for		
Interest	**$ 4,604**	$ 5,237
Noncash transactions		
Accounts payable related to purchases of property, plant, and equipment	**$ 470**	$ 687

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. On July 9, 2010, the Company completed the sale of its Sandersville power plant, a 640 MW simple-cycle plant (See Note 12). As of March 31, 2011, the Company's portfolio of facilities consisted of four operational and fully permitted combined-cycle power plants (Murray I, Murray II, Hot Spring and Hinds), or (the "Plants"), located in the southeastern United States with gas turbines having an aggregate capacity of 2,390 megawatts ("MW"). On April 8, 2011, the Company completed the sale of its Murray I and Murray II combined-cycle power plants having an aggregate capacity of 1250 MW (See Note 12). The Murray I and Murray II power plants were classified as assets held for sale at March 31, 2011. 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 1140 MW (See Note 13).

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 considered necessary for a fair presentation have been included. The balance sheet as of June 30, 2010 is derived from the June 30, 2010 audited consolidated financial statements. These condensed consolidated financial statements should be read in conjunction with the Consolidated Financial Statements and Notes included in the Company's Annual Report for the year ended June 30, 2010.

Short-Term Investments—Short-term investments, consisting of money market instruments with original maturities of less than twelve months but more than three months, are considered to be short-term investments and are recorded at cost, which approximates current market value.

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, and KGen Acquisition I LLC, all direct or indirect 100% owned subsidiaries of the Company as of March 31, 2011, as well as any variable interest entities for which the Company is the primary beneficiary. 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 thus production varies with weather conditions. Three of the plants operate, and historically the Sandersville power plant operated 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 financial instruments consist primarily of cash and cash equivalents, restricted cash and cash equivalents, short-term investments, accounts receivable, accounts payable, debt instruments, and interest rate derivatives. The carrying values of the cash and cash equivalents, restricted cash and cash equivalents, short-term investments, accounts receivable, and accounts payable are representative of their respective fair value due to the short-term nature of these instruments. The carrying value of interest rate derivative instruments represents the fair value, which is based on estimates using standard pricing models that take into account the present value of future cash flows as of the condensed consolidated balance sheet date. Based on the borrowing rates currently available to the Company for bank loans with similar terms and average maturities, the fair value of term debt was $137.3 million and $184.7 million at March 31, 2011 and June 30, 2010, respectively.

2. Property, Plant, and Equipment

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

	Estimated Useful Life	March 31, 2011	June 30, 2010
Land	—	$ 3,079	$ 3,312
Buildings	40 years	14,038	26,382
Gas and steam turbines	30 years	84,252	181,733
Steam generators and auxiliaries	30 years	21,365	48,959
Transmission and fuel gas pipelines	30 years	15,132	51,038
Systems and equipment	5-30 years	54,205	120,210
Other plant	3-30 years	98,160	205,710
Total property, plant, and equipment		290,231	637,344
Less: accumulated depreciation		41,925	73,819
Net property, plant, and equipment		$ 248,306	$ 563,525

During the three and nine months ended March 31, 2011, the company decided to sell the assets of its Murray I and II combined-cycle power generation facilities (see Note 12).

3. Contract-Based Intangibles

Contract-based intangibles consist of the following (in thousands of dollars):

	Term	Original Cost	Accumulated Amortization	March 31, 2011
Liabilities				
Hot Spring firm transportation contracts	Various	$ 18,861	$ (5,065)	$ 13,796
Total liabilities		$ 18,861	$ (5,065)	$ 13,796

	Term	Original Cost	Accumulated Amortization	June 30, 2010
Assets				
Murray I Georgia Power contract	May 31, 2012	$ 43,265	$(27,523)	$ 15,742
Murray firm transportation contracts	Various	40,277	(8,631)	31,646
Total assets		$ 83,542	$(36,154)	$ 47,388
Liabilities				
Murray firm transportation contract	November 30, 2016	$ 638	$ (222)	$ 416
Hot Spring firm transportation contracts	Various	18,861	(4,148)	14,713
Total liabilities		$ 19,499	$ (4,370)	$ 15,129

For both the three months ended March 31, 2011 and 2010, amortization of contract-based natural gas transportation rights and obligations was $0.3 million. For the nine months ended March 31, 2011 and 2010, amortization of contract-based natural gas transportation rights and obligations was $0.9 million and $1.0 million, respectively. These amortization amounts were recorded as an increase of gas transportation expenses on the condensed consolidated statements of operations.

For the three months ended March 31, 2011 and 2010, amortization of contract-based natural gas transportation rights and obligations was $0.2 million and $0.6 million, respectively. For the nine months ended March 31, 2011 and 2010, amortization of contract-based natural gas transportation rights and obligations was $1.5 million and $1.9 million, respectively. These amortization amounts were included in discontinued operations on the condensed consolidated statements of operations.

For the three months ended March 31, 2011 and 2010, amortization of contract-based power sales rights and obligations was $0.7 million and $2.0 million, respectively. For the nine months ended March 31, 2011 and 2010, amortization of contract-based power sales rights and obligations was $4.7 million and $6.1 million, respectively. These amortization amounts were included in discontinued operations on the condensed consolidated statements of operations.

During the three and nine months ended March 31, 2011, the company decided to sell the assets of its Murray I and II combined-cycle power generation facilities (see Note 12).

4. Long-Term Debt

Long-term debt is summarized as follows (in thousands of dollars):

	Interest Rate	Maturity	March 31, 2011	June 30, 2010
Term debt	Variable	February 8, 2014	$ 133,411	$ 193,000
Working capital facility	Variable	February 8, 2012	—	10,000
Total debt outstanding			133,411	203,000
Less: current portion			1,393	2,000
Total long-term debt			$ 132,018	$ 201,000

On February 8, 2007, KGen LLC, a wholly-owned subsidiary of the Company, entered into a credit agreement with Morgan Stanley (the "Credit Agreement") and related security deposit agreement (the "Security Deposit Agreement") with Union Bank, N.A., as collateral agent, and The Bank of New York, as depository agent, to provide term debt in the amount of $200.0 million. The term debt bears interest at an adjusted rate based on the London Interbank Offered Rate ("LIBOR") plus 175 basis points, has a term of seven years, and required a $2.0 million principal payment per year made in quarterly installments. KGen LLC's obligations and indebtedness under the Credit Agreement are secured by a security interest in all of the assets and all of the membership interests of KGen LLC and its subsidiaries. The interest rate on the term debt was 2.1% at both March 31, 2011 and June 30, 2010.

The Credit Agreement includes an $80.0 million working capital facility for liquidity needs and a $120.0 million synthetic letter of credit facility to support the collateral requirements at the project level. The working capital facility charges a 200 basis point fee for outstanding letters of credit, bears interest at LIBOR plus 200 basis points for outstanding draws, and has a 50 basis point commitment fee for any unused portion. It has a five-year term expiring on February 8, 2012. KGen LLC pays a fee of 191 basis points on the $120.0 million synthetic letter of credit facility. It has a seven-year term expiring on February 8, 2014. On March 20, 2009, KGen LLC drew $10.0 million under the working capital facility. The proceeds of the drawdown were used for working capital purposes.

On August 18, 2010, the Company prepaid $58.5 million of its outstanding term debt and $10.0 million of its outstanding working capital facility using a portion of the proceeds received from the sale of 100% of the ownership interests in KGen Sandersville LLC, the entity that owned the Sandersville power generation facility (See Note 12). In connection with this prepayment, the Company reduced its principal payment requirement of $2.0 million per year to $1.4 million per year with quarterly installments beginning September 30, 2010. In addition, there were $0.5 million of outstanding letters of credit issued under the working capital facility and $14.4 million of outstanding letters of credit issued under the synthetic letter of credit facility that related to Sandersville and were cancelled following the sale of 100% of the ownership interests in KGen Sandersville LLC.

There were $42.5 million and $14.0 million of outstanding letters of credit issued under the working capital facility as of March 31, 2011 and June 30, 2010, respectively. At both March 31, 2011 and June 30, 2010, a letter of credit, supporting the power sales contract with Georgia Power Company ("GPC"), in the amount of $80.0 million was outstanding under the synthetic letter of credit facility. There were $5.5 million and $19.9 million of other outstanding letters of credit under the synthetic letter of credit facility as of March 31, 2011 and June 30, 2010, respectively.

The remaining future minimum principal payments under the term debt and the working capital facility subsequent to March 31, 2011 are as follows (in thousands of dollars):

2011	$ 349
2012	1,393
2013	1,393
2014	130,276
Total	$ 133,411

4. Long-Term Debt (Continued)

The Credit Agreement and related financing documents contain various affirmative and negative covenants, including (a) financial covenants, (b) limitations on KGen LLC's ability to pay dividends, (c) restrictions on the use of available cash for operations, except as required for debt service payments and (d) an event of default in the event of a change in control of KGen. At March 31, 2011, KGen LLC was in compliance with these covenants.

Under the terms of the Credit Agreement, KGen LLC is restricted from making dividend payments, loans or advances to the Company. These restrictions resulted in restricted net assets of the Company's subsidiaries exceeding 25% of the consolidated net assets of the Company and its subsidiaries. The amount of restricted net assets was $516.0 million at March 31, 2011, of which $412.7 million was restricted net current assets.

During the three and nine months ended March 31, 2011, the company decided to sell the assets of its Murray I and II combined-cycle power generation facilities (see Note 12).

5. Restricted Cash and Cash Equivalents

The Credit Agreement requires KGen LLC to maintain six months of principal and interest payments reserve in cash. At March 31, 2011 and June 30, 2010, the restricted balance, in accordance with this requirement, was $4.3 million and $4.7 million, respectively.

Additionally, the Security Deposit Agreement requires KGen LLC to reserve, on a quarterly basis, the amount of major maintenance expenditures expected to be incurred during the following 12 months. At March 31, 2011 and June 30, 2010, the restricted balance, in accordance with this requirement, was $3.0 million and $2.5 million, respectively.

During the three and nine months ended March 31, 2011, the company decided to sell the assets of its Murray I and II combined-cycle power generation facilities (see Note 12).

6. Commitments and Contingencies

Litigation—The Company is 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 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, 2010, except as discussed in Note 12.

During the three and nine months ended March 31, 2011, the company decided to sell the assets of its Murray I and II combined-cycle power generation facilities (see Note 12).

7. Industrial Development Revenue Bonds

This footnote should be read in conjunction with Note 7—Industrial Development Revenue Bonds of the Notes to the Consolidated Financial Statements contained in the Annual Report for the year ended June 30, 2010. Construction of the Hot Spring, Murray, and Sandersville facilities was financed by various development authorities through the issuance of Industrial Development Revenue Bonds (the "Bonds").

Following the sale of 100% of the ownership interests in KGen Sandersville LLC, the entity that owns the Sandersville power generation facility (See Note 12), the Industrial Development Revenue Bond related to Sandersville was no longer held by the Company.

7. Industrial Development Revenue Bonds (Continued)

At March 31, 2011, $510.0 million of the Bonds remained outstanding related to the Hot Spring and Murray projects. At June 30, 2010, $775.4 million of the Bonds remained outstanding related to the Hot Spring, Sandersville, and Murray projects.

During the three and nine months ended March 31, 2011, the company decided to sell the assets of its Murray I and II combined-cycle power generation facilities (see Note 12).

8. Derivatives and Investments

The Company recognizes all derivatives and investments as either assets or liabilities on the balance sheet and measures those instruments at fair value. The ongoing effects are 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 Credit Agreement terms. Each of the six individual swap agreements has a notional amount of $33.0 million and has a term that expires in each consecutive year, beginning on March 31, 2008 continuing through March 31, 2013. The average interest rate payable by KGen LLC was 5.1% at March 31, 2011.

The short-term portion of the Swaps as of March 31, 2011 and June 30, 2010 was $2.7 million and $3.6 million, respectively, and was recorded in accounts payable and accrued liabilities. The long-term portion of the Swaps as of March 31, 2011 and June 30, 2010 was $1.2 million and $2.7 million, respectively, and was recorded in other noncurrent liabilities.

The Swaps are not accounted for utilizing hedge accounting; they are 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 three months ended March 31, 2010	Interest expense	Level II	$(1,044)
For the nine months ended March 31, 2011	Interest expense	Level II	$(1,117)
For the nine months ended March 31, 2010	Interest expense	Level II	$(3,236)

The Company evaluated the requirements of FASB ASC 820, *Fair Value Measurement and Disclosures* ("FASB ASC 820") and believes the Swaps are valued using Level 2 fair value measurements. Under FASB ASC 820, instruments valued using Level 2 measurements are valued based on either quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and/or model-based valuations whose inputs are observable or whose significant value drivers are 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 March 31, 2011. Short-term investment income is shown on the condensed consolidated statements of operations as follows (in thousands of dollars):

	Location of Interest on Short-Term Investments	Hierarchy	Interest on Short-Term Investments
For the three months ended March 31, 2011	Other	Level I	$ 2
For the nine months ended March 31, 2011	Other	Level I	$ 2

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.

8. Derivatives and Investments (Continued)

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.

During the three and nine months ended March 31, 2011, the company decided to sell the assets of its Murray I and II combined-cycle power generation facilities (see Note 12).

9. 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 for both the three months ended March 31, 2011 and 2010, and for the nine months ended March 31, 2010, diluted earnings per share was calculated on the same basis as basic loss per share as the inclusion of any other potential shares outstanding would be anti-dilutive. Therefore, unvested restricted stock units of 116,027 shares for the three months ended March 31, 2011, and 6,233 shares for the three and nine months ended March 31, 2010, were not considered in the loss per share calculation.

Due to the net income 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 awards of 116,027 shares.

There were no unexercised in-the-money stock options to purchase shares of common stock for the three and nine months ended March 31, 2011 and 2010. 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, 2011 and 908,908 shares of common stock for both the three and nine months ended March 31, 2010, respectively, were not considered in the earnings (loss) per share calculation as the impact of such inclusion would have been anti-dilutive.

9. Net Earnings (Loss) per Share (Continued)

Amounts shown below are in thousands, except per share amounts.

	For the Three Months Ended March 31, 2011	For the Three Months Ended March 31, 2010	For the Nine Months Ended March 31, 2011	For the Nine Months Ended March 31, 2010
Numerator:				
Net loss from continuing operations after taxes	$(18,325)	$(27,651)	$ (9,434)	$ (45,568)
Net (loss) income from discontinued operations after taxes	$ (3,981)	$ (7,787)	$ 49,787	$ 4,790
Net (loss) income	$(22,306)	$(35,438)	$ 40,353	$ (40,778)
Denominator:				
Weighted average shares outstanding—basic	56,025	55,968	56,007	55,968
Weighted average shares outstanding—diluted	56,025	55,968	56,122	55,968
Net (loss) income per share from continuing operations – basic and diluted	$ (0.33)	$ (0.49)	$ (0.17)	$ (0.81)
Net (loss) income per share from discontinued operations – basic and diluted	$ (0.07)	$ (0.14)	$ 0.89	$ 0.09
Total	$ (0.40)	$ (0.63)	$ 0.72	$ (0.73)

10. 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, 2010.

The Company recorded compensation expense of zero for both the three and nine months ended March 31, 2011, respectively, and $0.1 million and $0.8 million for the three and nine months ended March 31, 2010, respectively, related to stock options outstanding. As of March 31, 2011 and 2010, all options were vested and there was no unrecognized compensation expense remaining on the options. For the three and nine months ended March 31, 2011 and 2010, no options were granted or exercised.

On August 13, 2010, the Board of Directors granted a total of 237,268 restricted stock units ("RSUs") to senior employees and the Chairman of the Board of Directors pursuant to the KGen Power Corporation 2006 Equity Incentive Plan ("the Plan"). Each RSU will entitle its holder to receive, upon vesting of the RSU, one share of common stock of the Company. Under the terms of the RSU awards, 35,592 RSUs vested immediately upon grant due to the completed sale of 100% of the ownership interests in KGen Sandersville LLC, the entity that owns the Sandersville power generation facility. Of the remaining unvested RSUs, 106,769 will vest upon the consummation of a sale of the Murray I and II power generation facilities; 47,454 will vest upon the consummation of a sale of the Hot Spring power generation facility; and 47,453 will vest upon the consummation of a sale of the Hinds power generation facility. All unvested RSUs will vest upon the consummation of a change in control of the Company.

The Company recorded compensation expense of $0.3 million and $1.1 million for the three and nine months ended March 31, 2011, respectively, and $28.0 thousand and $0.1 million for the three and nine months ended March 31, 2010, respectively, related to the above outstanding RSUs. As of March 31, 2011 and 2010, there was $0.7 million and $45.0 thousand of total unrecognized compensation expense related to the unvested RSUs.

On October 5, 2010, the Board of Directors granted 15,000 RSUs to the CEO of the company pursuant to the Plan. Each RSU entitled the CEO to receive, upon vesting of the RSU, one share of common stock of the Company. Under the terms of the RSU awards, all 15,000 shares vested immediately upon grant and the Company recorded the full compensation expense of $0.2 million during the nine months ended March 31, 2011.

During the three and nine months ended March 31, 2011, the company decided to sell the assets of its Murray I and II combined-cycle power generation facilities (see Note 12).

11. Income Taxes

For the three and nine months ended March 31, 2011 and 2010, there were no current or deferred income tax provision (benefits) included in the net income (loss).

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, 2011	For the Three Months Ended March 31, 2010	For the Nine Months Ended March 31, 2011	For the Nine Months Ended March 31, 2010
Statutory rate	35%	35%	35%	35%
Tax at statutory rate	$ (6,414)	$ (9,678)	$ (12,228)	$ (17,011)
Increase (decrease) due to:				
Nondeductible meals and entertainment	2	1	7	6
State tax (benefit) expense	(711)	(1,007)	(1,403)	(1,854)
Return to provision	(20)	(93)	(20)	(93)
Adjustment for intraperiod allocation	—	—	(11,859)	—
Adjustment to valuation allowance	7,143	10,777	—	15,917
Total provision	$ —	$ —	$ (25,503)	$ (3,035)

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

	March 31, 2011	June 30, 2010
Deferred tax assets:		
Interest rate derivatives	$ 1,516	$ 2,472
Contract-based intangible assets	17,256	15,109
Nonqualified stock options expense	5,802	5,375
Accrued expenses	78	21
Net operating loss	64,709	81,113
Contribution carryforward	—	16
Net deferred tax assets	89,361	104,106
Deferred tax liabilities:		
Property, plant, and equipment	20,246	19,346
Prepaid expenses	150	613
Contract-based intangible liabilities	4,413	4,043
Net deferred tax liability	24,809	24,002
Valuation allowance	64,552	80,104
Deferred tax asset (liabilities), net	$ —	$ —

At March 31, 2011, the Company had a federal net operating loss carryforward of $167.0 million which will expire between 2027 and 2031. The amount of taxable income that the Company can offset with this carryforward is subject to limitations under Section 382 of the Internal Revenue Code, which is applicable to corporations in certain instances following an ownership change (as such term is defined for income tax purposes).

Based on management's projections of book and taxable income for the year ended June 30, 2011, it was deemed appropriate to release a $15.6 million valuation allowance equal to the projected taxable income for the nine months ended March 31, 2011, as the entire net operating loss carryforward can now be utilized against such income. There were no unrecognized tax benefits that if recognized would affect the tax rate. No interest or penalties were recognized as of March 31, 2011.

11. Income Taxes (Continued)

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.

12. Asset Sales and Assets Held for Sale

This footnote should be read in conjunction with Note 12—Assets Held for Sale of the Notes to the Consolidated Financial Statements contained in the Annual Report for the year ended June 30, 2010. As the agreed-upon purchase price for both transactions exceeded the carrying value of the assets being sold, the Company did not write the assets down on the date they became classified as held for sale.

KGen Sandersville LLC Sale

The transaction between the Company and AL Sandersville Holdings, LLC, an entity formed by ArcLight Energy Partners Fund III, LP, to purchase 100% of the ownership interests in KGen Sandersville LLC, the entity that owns the Sandersville power generation facility closed on July 9, 2010. A subsidiary of ArcLight Energy Partners Fund IV, LLP, is a shareholder of the Company. The Company received $129.3 million in cash sales proceeds which represents a $130.0 million purchase price less a working capital adjustment. The net gain on the sale was $65.0 million and the Company prepaid $58.5 million of its outstanding term debt and $10.0 million of its outstanding working capital facility using a portion of the proceeds of this sale.

In addition, KGen LLC distributed $19.5 million of the cash sales proceeds received to its parent, KGen Power Corporation. The Company expects to use a portion of its existing tax net operating loss ("NOLs") to offset all of the taxable gain resulting from this sale.

KGen Murray I & II LLC Assets Held for Sale

On January 31, 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 Murray I and II electric generation facilities to Oglethorpe Power Corporation (OPC). The sale closed on April 8, 2011. The Company received $449.6 million in cash sales proceeds which represents a $531.3 million purchase price less a working capital and spare parts inventory adjustment and $79.7 million which was placed in escrow for a period of 18 months after closing to secure customary post-closing indemnification obligations. The net gain on the sale was $177.4 million. The Company expects to use its remaining tax NOLs to offset all but approximately $36.1 million of the taxable gain resulting from the sale. In connection with the closing of the transaction, the Company's credit, working capital, and synthetic letter of credit facilities were terminated and the related interest rate swaps were unwound. The Company used $138.0 million of the net proceeds of the sale to repay outstanding debt under these facilities and satisfy related obligations. In connection with the termination of these facilities, the restricted cash and cash equivalents associated with these facilities was released. The Company transferred the Industrial Revenue Bonds associated with Murray I and II to OPC. Additionally, all contractual commitments associated with Murray I and II were transferred in connection with the sale. Restricted stock units of 106,769 vested upon the consummation of the sale of Murray I and II power generation facilities.

In addition, subsequent to the repayment of all outstanding debt under the Credit Facility, a $75.0 million replacement cash collateralized letter of credit facility was entered into on April 8, 2011 of which $39.1 million of letters of credit have been issued. The $39.1 million of cash collateral supporting this letter of credit facility was recorded to 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. Fronting fees related to this letter of credit facility were $0.1 million and were expensed as incurred.

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

Assets held for sale and liabilities associated with the assets held for sale related to the Murray I and II 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, 2011. The Company suspended related depreciation and amortization of these assets upon their classification of assets held for sale on January 31, 2011.

They consist of the following (in thousands of dollars):

	March 31, 2011
Accounts receivable	$ 3,039
Spare parts inventories	4,234
Property, plant, and equipment	303,188
Contract-based intangibles	41,172
Deferred charge	1,914
Other assets	80
Assets held for sale	$ 353,627
Accounts payable and accrued liabilities	$ 6,179
Contract-based intangibles	378
Liabilities associated with assets held for sale	$ 6,557

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 the Murray I and II assets and therefore has reflected the results of operations for Sandersville LLC and Murray I and II as discontinued operations for the three and nine months ended March 31, 2011 and 2010.

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

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 Three Months Ended March 31, 2010	For the Nine Months Ended March 31, 2011	For the Nine Months Ended March 31, 2010
Revenues:				
Energy sales	$ 9,929	$ 12,797	$ 71,688	$ 57,203
Capacity sales	5,688	5,673	37,153	37,555
Total revenues	15,617	18,470	108,841	94,758
Operating expenses:				
Cost of fuel	9,619	13,338	61,524	49,812
Operating and maintenance	4,206	3,467	13,978	8,778
Gas transportation	2,754	3,201	9,394	9,890
Selling, general, and administrative	168	198	924	731
Depreciation	992	3,475	6,905	10,588
Auxiliary power	1,348	1,616	4,276	4,324
Insurance	271	438	820	1,301
Total operating expenses	19,358	25,733	97,821	85,424
Operating (loss) income	(3,741)	(7,263)	11,020	9,334
Other (expenses) income:				
Net gain on sale of assets	—	—	64,991	—
Taxes, other than income taxes	(240)	(524)	(721)	(1,509)
Total other (expenses) income	(240)	(524)	64,270	(1,509)
Net (loss) income from before taxes	(3,981)	(7,787)	75,290	7,825
Income tax expense	—	—	(25,503)	(3,035)
Net (loss) income	$ (3,981)	$ (7,787)	$ 49,787	$ 4,790

13. Subsequent Events

Hinds Purchase & Sale Agreement—On April 28, 2011, 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 transaction is conditioned upon the receipt of approval from a majority of the Company's outstanding shares and various regulatory agencies. Assuming satisfaction of these conditions, the transaction is expected to close by the middle of 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, and 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.

Hot Spring Purchase & Sale Agreement—On April 28, 2011, 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 transaction is conditioned upon the receipt of approval from a majority of the Company's outstanding shares and various regulatory agencies. Assuming satisfaction of these conditions, the transaction is expected to close by the middle of 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, and 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.

Subsequent events were analyzed and considered through May 13, 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 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), located in the southeastern United States with General Electric (GE) 7FA gas turbines. Our combined-cycle Plants have an aggregate nominal capacity of 1,140 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 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 1250 MW, for a purchase price of $531.3 million, subject to various adjustments. 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 1140 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 $37.2 million related to capacity sales on the GPC PPA for the three and nine months ended March 31, 2011, respectively, and $5.7 million and $37.6 million related to capacity sales on the GPC PPA for the three and nine months ended March 31, 2010, respectively.

Recent Events

Murray Purchase & Sale Agreement— On January 31, 2011, we executed a definitive agreement for the sale of our Murray I and II electric generation facilities to Oglethorpe Power Corporation, or OPC, for a cash purchase price of $531.3 million, subject to working capital and spare parts inventory adjustments. The transaction was implemented by means of a sale of 100% of the ownership interests in KGen Murray I and II LLC, the entity that owns the Murray facilities on April 8, 2011. These facilities, located in Murray County, Georgia, are comprised of two natural gas-fired combined cycle power generation plants with a combined nominal capacity of 1,250 MW. We expect to use tax net operating losses, or NOLs, to offset all but approximately $36.1 million of the taxable gain resulting from the sale. In connection with the closing of the transaction, our credit, working capital, and synthetic letter of credit facilities were terminated and the related interest rate swaps were unwound. The Company used $138.0 million of the net proceeds of the sale to repay outstanding debt under these facilities and satisfy related obligations. In connection with the termination of these facilities, the restricted cash and cash equivalents associated with these facilities was released. The Company transferred the Industrial Revenue Bonds associated with Murray I and II to OPC. Additionally, all contractual commitments associated with Murray I and II were transferred in connection with the sale. Restricted stock units of 106,769 vested upon the consummation of the sale of Murray I and II power generation facilities. Under the terms of the transaction agreement, $79.7 million of the purchase price was placed in escrow for a period of 18 months after closing to secure customary post-closing indemnification obligations. The Board of Directors expects to make a distribution to shareholders out of the net proceeds of the sale of KGen Murray I and II LLC.

Hinds Purchase & Sale Agreement— On April 28, 2011, 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 transaction is conditioned upon the receipt of approval from a majority of the Company's outstanding shares and various regulatory agencies. Assuming satisfaction of these conditions, the transaction is expected to close by the middle of 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, and 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.

Hot Spring Purchase & Sale Agreement—On April 28, 2011, 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 transaction is conditioned upon the receipt of approval from a majority of the Company's outstanding shares and various regulatory agencies. Assuming satisfaction of these conditions, the transaction is expected to close by the middle of 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, and 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.

Results of Operations

Our results of operations are subject to seasonal variations since demand for electricity, and thus, 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 historically have not been profitable for KGen and are the months during which we typically seek to perform scheduled maintenance-related activities. The discussion below includes the results from our Sandersville plant, which we sold on July 9, 2010. For the three and nine months ended March 31, 2011, KGen Sandersville LLC's adjusted EBITDA, a non-GAAP financial measure, was zero and a loss of $0.1 million, respectively. The discussion below also includes the results from our Murray I and II plants, which we sold on April 8, 2011. For the three and nine months ended March 31, 2011, KGen Murray I and II LLC's adjusted EBITDA, a non-GAAP financial measure, was a loss of $1.6 million and income of $25.7 million. Accordingly, these results may not be indicative of future results of the Company.

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

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

	For the Three Months Ended March 31, 2011	For the Three Months Ended March 31, 2010	Favorable/(Unfavorable) Change	% Change
Revenues:				
Energy sales	$ 21,714	$ 21,676	$ 38	0%
Capacity sales	6,395	6,115	280	5%
Total revenues	28,109	27,791	318	1%
Operating expenses:				
Cost of fuel	20,286	21,369	1,083	5%
Operating and maintenance	12,085	21,700	9,615	44%
Gas transportation	4,409	3,684	(725)	(20%)
Selling, general, and administrative	3,992	3,250	(742)	(23%)
Depreciation	3,540	6,009	2,469	41%
Auxiliary power	2,066	2,148	82	4%
Insurance	660	905	245	27%
Total operating expenses	47,038	59,065	12,027	20%
Operating loss	(18,929)	(31,274)	12,345	39%
Other expenses:				
Interest expense	(1,802)	(2,994)	1,192	40%
Taxes, other than income taxes	(1,523)	(1,113)	(410)	(37%)
Other	(52)	(57)	5	9%
Total other expenses	(3,377)	(4,164)	787	19%
Net loss before taxes	$ (22,306)	$ (35,438)	$ 13,132	37%

GAAP to Non-GAAP Consolidated Results of Operations Reconciliation

	For the Three Months Ended March 31, 2011			For the Three Months Ended March 31, 2010		
	Continuing Operations	Discontinued Operations	Results of Operations	Continuing Operations	Discontinued Operations	Results of Operations
Revenues:						
Energy sales	$ 11,785	$ 9,929	**$ 21,714**	$ 8,879	$ 12,797	**$ 21,676**
Capacity sales	707	5,688	**6,395**	442	5,673	**6,115**
Total revenues	12,492	15,617	**28,109**	9,321	18,470	**27,791**
Operating expenses:						
Cost of fuel	10,667	9,619	**20,286**	8,031	13,338	**21,369**
Operating and maintenance	7,879	4,206	**12,085**	18,233	3,467	**21,700**
Gas transportation	1,655	2,754	**4,409**	483	3,201	**3,684**
Selling, general, and administrative	3,824	168	**3,992**	3,052	198	**3,250**
Depreciation	2,548	992	**3,540**	2,534	3,475	**6,009**
Auxiliary power	718	1,348	**2,066**	532	1,616	**2,148**
Insurance	389	271	**660**	467	438	**905**
Total operating expenses	27,680	19,358	**47,038**	33,332	25,733	**59,065**
Operating loss	(15,188)	(3,741)	**(18,929)**	(24,011)	(7,263)	**(31,274)**
Other income (expenses):						
Interest expense	(1,802)	—	**(1,802)**	(2,994)	—	**(2,994)**
Taxes, other than income taxes	(1,283)	(240)	**(1,523)**	(589)	(524)	**(1,113)**
Other	(52)	—	**(52)**	(57)	—	**(57)**
Total other expenses	(3,137)	(240)	**(3,377)**	(3,640)	(524)	**(4,164)**
Net loss before taxes	$ (18,325)	$ (3,981)	**$ (22,306)**	$(27,651)	$ (7,787)	**$ (35,438)**

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

In addition to the foregoing results of operations presented in accordance with GAAP, we utilize various non-GAAP operating and business metrics to analyze the Company's performance. We believe these metrics provide useful insight into the Company's performance, assist us in identifying trends in our business, and better allow us to compare our performance to others in our industry. We describe below these various non-GAAP metrics and provide a reconciliation of these metrics for the three months ended March 31, 2011 and 2010, to the most directly comparable GAAP measures for those periods. See the reconciliation of net income to adjusted EBITDA on page 24. 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, Adjusted Contracted Margin, and Total Adjusted Margin

We separate merchant margin and adjusted contracted margin because the distinction helps us analyze the certainty of future cash flows of the Company and the underlying commodity value of the Company's assets.

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 Hinds and Hot Spring plants, and considered our former Murray II and Sandersville plants to be merchant plants because they were not selling their energy output and capacity pursuant to long-term sales agreements during these reporting periods.

	For the Three Months Ended March 31, 2011	For the Three Months Ended March 31, 2010
Energy sales	$ 21,714	$ 21,676
Less: Cost of fuel	(20,286)	(21,369)
Less: Contracted energy sales	(7,726)	(9,484)
Add: Contracted cost of fuel	7,742	10,452
Merchant energy margin	1,444	1,275
Capacity sales	6,395	6,115
Less: Contracted capacity sales	(5,688)	(5,673)
Merchant capacity sales	707	442
Merchant margin	$ 2,151	$ 1,717

Adjusted contracted margin is equal to the sum of adjusted contracted energy margin and adjusted contracted capacity sales. Adjusted contracted energy margin is defined as energy sales less the related cost of fuel pursuant to arrangements having an original delivery term of one year or greater adjusted to remove the income effects of noncash amortization of contract-based intangibles. Adjusted contracted capacity sales is defined as capacity sales pursuant to arrangements having an original delivery term of one year or greater adjusted to remove the income effects of noncash deferred capacity revenue to levelize the capacity sales over the term of the agreement as required by GAAP. We believe that the foregoing adjustments are helpful in understanding the commercial results of our contractual arrangements without the impact of noncash accounting adjustments. We considered Murray I to be contracted, because it was selling its energy output and capacity pursuant to the long-term GPC PPA.

	For the Three Months Ended March 31, 2011	For the Three Months Ended March 31, 2010
Energy sales	$ 21,714	$ 21,676
Less: Merchant sales	(13,988)	(12,192)
Contracted energy sales	7,726	9,484
Less: Contracted cost of fuel	(7,742)	(10,452)
Add: Power sales rights and obligations amortization	676	2,028
Adjusted contracted energy margin	660	1,060
Contracted capacity sales	5,688	5,673
Add (Less): Noncash deferred capacity revenue	157	56
Adjusted contracted capacity sales	5,845	5,729
Adjusted contracted margin	$ 6,505	$ 6,789

Total adjusted margin is equal to the sum of merchant margin and adjusted contracted margin.

	For the Three Months Ended March 31, 2011	For the Three Months Ended March 31, 2010
Merchant margin	$ 2,151	$ 1,717
Adjusted contracted margin	6,505	6,789
Total adjusted margin	$ 8,656	$ 8,506

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 and adjusted contracted 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 fees 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, 2011	For the Three Months Ended March 31, 2010
Total operating expenses	$ 47,038	$ 59,065
Less: Cost of fuel	(20,286)	(21,369)
Less: Major maintenance expense	(2,418)	(15,110)
Add(Less): Gas transportation noncash amortization	99	(301)
Less: Selling, general, and administrative expense	(3,992)	(3,238)
Less: Termination and transition cots	—	(580)
Less: Depreciation	(3,540)	(6,009)
Less: D&O insurance expense	(41)	(45)
Add: Taxes, other than income taxes	1,523	1,113
Adjusted plant expenses	$ 18,383	$ 13,526

Adjusted corporate expenses is defined as selling, general, and administrative expense adjusted for (a) the removal of noncash stock compensation expense, and (b) the addition of director and officer insurance expense.

	For the Three Months Ended March 31, 2011	For the Three Months Ended March 31, 2010
Selling, general, and administrative expense	$ 3,992	$ 3,238
Less: Noncash employee options/awards expense	(275)	(111)
Add: D&O insurance expense	41	45
Adjusted corporate expenses	$ 3,758	$ 3,172

Adjusted Plant EBITDA and Adjusted EBITDA:

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

	For the Three Months Ended March 31, 2011	For the Three Months Ended March 31, 2010	Favorable/Unfavorable) Change	% Change
Merchant energy margin	$ 1,444	$ 1,275	$ 169	13%
Merchant capacity sales	707	442	265	60%
Merchant margin	2,151	1,717	434	25%
Adjusted contracted energy margin	660	1,060	(400)	(38%)
Adjusted contracted capacity sales	5,845	5,729	116	2%
Adjusted contracted margin	6,505	6,789	(284)	(4%)
Total adjusted margin	8,656	8,506	150	2%
Adjusted plant expenses	18,383	13,526	(4,857)	(36%)
Adjusted plant EBITDA	(9,727)	(5,020)	(4,707)	(94%)
Adjusted corporate expenses	3,758	3,172	(586)	(18%)
Adjusted EBITDA	$ (13,485)	$ (8,192)	$ (5,293)	(65%)

Selected Operating and Business Metrics

	For the Three Months Ended March 31, 2011	For the Three Months Ended March 31, 2010	Favorable/(Unfavorable) Change	% Change
Selected Financial and Operating Data				
Total generation (GWh)	592	487	105	22%
Merchant generation (GWh)	400	272	128	47%
Merchant margin/merchant generation ($/MWh)	$ 5.38	$ 6.31	$ (0.93)	(15%)

Selected Market and Weather Data

	For the Three Months Ended March 31, 2011	For the Three Months Ended March 31, 2010	Change	% Change
Selected Market Data(1)				
Average on-peak market power price— Entergy ($/MWh)...	$ 34.63	$ 42.04	$ (7.41)	(18%)
Average on-peak market power price— Southern ($/MWh)...	$ 37.93	$ 43.84	$ (5.91)	(13%)
Average Henry Hub gas price ($/MMbtu).........	$ 4.16	$ 5.14	$ (0.98)	(19%)
Selected Weather Data				
Actual HDDs(2)...	4,670	5,860	(1,190)	(20%)
Normal HDDs..	4,828	4,828	—	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, 2011 compared to the Three Months Ended March 31, 2010.

Total adjusted margin increased $0.1 million, or 2%, to $8.7 million for the three months ended March 31, 2011 compared to the same period in the previous year as a result of a $0.4 million increase in merchant margin and a $0.3 million decrease in adjusted contracted margin. The $8.7 million in total adjusted margin was comprised of $2.2 million in merchant margin and $6.5 million in adjusted contracted margin.

Merchant margin increased $0.4 million, or 25%, to $2.2 million for the three months ended March 31, 2011. The $0.4 million increase was made up of a $0.1 million increase in merchant energy margin and a $0.3 million increase in merchant capacity sales. The $0.1 million increase in merchant energy margin related primarily to an increase in merchant generation of 47% from 272 GWh to 400 GWh for the three months ended March 31, 2011 as compared to the previous year offset by a decrease in natural gas prices, as evidenced by an 19% decrease in the average Henry Hub gas price from $5.14 per MMbtu to $4.16 per MMbtu for the three months ended March 31, 2011 as compared to the previous year. The implied merchant spark spread, or merchant margin divided by merchant generation, decreased from $6.31 per MWh to $5.38 per MWh, due to the effects of lower market gas prices.

Adjusted contracted margin decreased $0.3 million, or 4%, to $6.5 million for the three months ended March 31, 2011, which was comprised of $5.8 million in adjusted contracted capacity sales and an adjusted contracted energy margin of $0.7 million. The $0.3 million decrease was made up of a $0.4 million decrease in the adjusted contracted energy margin offset by a $0.1 million increase in the adjusted contracted capacity sales.

Adjusted plant expenses increased by $4.9 million, or 36%, to $18.4 million for the three months ended March 31, 2011. The increase related primarily to a $3.1 million increase in operating and maintenance expenses caused primarily by repairs to the inlet chiller system and one of the gas turbine compressors at Hot Spring, for which an insurance claim was filed in connection herewith, and by a $1.1 million increase in gas transportation associated with enhanced firm transportation purchased for January and February 2011.

As a result of the foregoing changes in total adjusted margin and adjusted plant expenses, adjusted plant EBITDA decreased by $4.7 million to $9.7 million for the three months ended March 31, 2011.

Adjusted corporate expenses increased by $0.6 million, or 18%, to $3.8 million for the three months ended March 31, 2011 due mainly to $0.7 million of increased legal expenses related to our sales transactions.

As a result of the foregoing, adjusted EBITDA decreased by $5.3 million to $13.5 million for the three months ended March 31, 2011.

GAAP to Non-GAAP Adjusted EBITDA Reconciliation

Following is an alternative calculation of adjusted EBITDA and adjusted plant EBITDA starting from net loss after taxes. EBITDA is equal to net loss after 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, 2011	For the Three Months Ended March 31, 2010
Net loss before taxes	$ (22,306)	$ (35,438)
Add: Interest expense	1,802	2,994
Add: Depreciation	3,540	6,009
Add: Power sales rights and obligations amortization	676	2,028
Add (Less): Gas transportation noncash amortization	(99)	301
Add: Noncash deferred capacity revenue	157	56
Add: Other expense	52	57
EBITDA	(16,178)	(23,993)
Add: Major maintenance expense	2,418	15,110
Add: Termination and transition costs	—	580
Add: Noncash employee options/awards expense	275	111
Adjusted EBITDA	(13,485)	(8,192)
Add: Selling, general, and administrative expense	3,992	3,238
Less: Noncash employee options/awards expense	(275)	(111)
Add: D&O insurance expense	41	45
Adjusted plant EBITDA	$ (9,727)	$ (5,020)

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 after taxes using these financial measures for the three months ended March 31, 2011 compared to the three months ended March 31, 2010.

- Interest expense for the three months ended March 31, 2011 was $1.8 million compared to $3.0 million for the same period in 2010. The $1.2 million decrease was primarily made up of a $0.3 million decrease due to lower outstanding debt amounts and $0.9 million in losses on derivatives associated with our interest rate hedging and cash payments on our interest rate swap agreements, or Swaps.

- Depreciation was $3.5 million and $6.0 million for the three months ended March 31, 2011 and 2010, respectively. The $2.5 million decrease was due to the suspension of depreciation related to the Murray and Sandersville plants of $1.9 million and $0.6 million respectively.

- Amortization of contract-based power sales rights and obligations for the three months ended March 31, 2011 and 2010 was $0.7 million and $2.0 million, respectively and was recorded as a reduction of energy sales. The $1.3 million decrease was due to suspension of amortization on the Murray intangibles due to its Held for Sale status as of January 31, 2011.

- Amortization of contract-based natural gas transportation rights and obligations for the three months ended March 31, 2011 and 2011 was $0.1 million of expense and $0.3 million of income, respectively, and was recorded as a decrease and increase in gas transportation expense.

- Noncash deferred capacity revenue, which represents the levelization of capacity sales over the GPC PPA term, of $0.2 million of expense and $41.0 thousand of revenue for the three months ended December 31, 2010 and 2009, respectively, was recorded as capacity sales.

- Other expense for the three months ended March 31, 2011 and 2010 was $52.0 thousand and $57.0 thousand, respectively.

- Major maintenance expense consisted of $2.4 million and $15.1 million for the three months ended March 31, 2011 and 2010, respectively. The $2.4 million expense was related to $0.3 million of major maintenance at the Murray II plant and $2.1 million of major maintenance at the Hot Spring plant.

The $15.1 million expense for the three months ended March 31, 2010 related to a hot gas path inspection at the Hinds plant.

- Noncash employee options/awards expense for both the three months ended March 31, 2011 and 2010 was $0.3 million and $0.1 million, respectively, and was recorded as an increase of selling, general, and administrative expense.

- Selling, general, and administrative expense was $4.0 million and $3.2 million for the three months ended March 31, 2011 and 2010, respectively. The $0.8 million increase was due mainly to $0.7 million of increased legal expenses related to our sales transactions.

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

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

	For the Nine Months Ended March 31, 2011	For the Nine Months Ended March 31, 2010	Favorable/(Unfavorable) Change	% Change
Revenues:				
Energy sales	$ 137,837	$ 99,091	$ 38,746	39%
Capacity sales	41,269	38,494	2,775	7%
Total revenues	179,106	137,585	41,521	30%
Operating expenses:				
Cost of fuel	117,089	84,538	(32,551)	(39%)
Operating and maintenance	30,037	32,791	2,754	8%
Gas transportation	13,431	12,119	(1,312)	(11%)
Selling, general, and administrative	10,449	9,198	(1,251)	(14%)
Depreciation	14,638	18,264	3,626	20%
Auxiliary power	6,509	6,331	(178)	(3%)
Insurance	1,985	2,687	702	26%
Total operating expenses	194,138	165,928	(28,210)	(17%)
Operating income	(15,032)	(28,343)	13,311	47%
Other income (expenses):				
Net gain on sale of assets	64,991	—	64,991	100%
Interest expense	(6,393)	(9,182)	2,789	30%
Taxes, other than income taxes	(3,088)	(3,076)	(12)	(0%)
Other	(125)	(177)	52	29%
Total other income (expenses)	55,385	(12,435)	67,820	545%
Net income (loss) before taxes	$ 40,353	$ (40,778)	$ 81,131	199%

GAAP to Non-GAAP Consolidated Results of Operations Reconciliation

	For the Nine Months Ended March 31, 2011			For the Nine Months Ended March 31, 2010		
	Continuing Operations	Discontinued Operations	Results of Operations	Continuing Operations	Discontinued Operations	Results of Operations
Revenues:						
Energy sales	$ 66,149	$ 71,688	**$ 137,837**	$ 41,888	$ 57,203	**$ 99,091**
Capacity sales	4,116	37,153	**41,269**	939	37,555	**38,494**
Total revenues	70,265	108,841	**179,106**	42,827	94,758	**137,585**
Operating expenses:						
Cost of fuel	55,565	61,524	**117,089**	34,726	49,812	**84,538**
Operating and maintenance	16,059	13,978	**30,037**	24,013	8,778	**32,791**
Gas transportation	4,037	9,394	**13,431**	2,229	9,890	**12,119**
Selling, general, and administrative	9,525	924	**10,449**	8,467	731	**9,198**
Depreciation	7,733	6,905	**14,638**	7,676	10,588	**18,264**
Auxiliary power	2,233	4,276	**6,509**	2,007	4,324	**6,331**
Insurance	1,165	820	**1,985**	1,386	1,301	**2,687**
Total operating expenses	96,317	97,821	**194,138**	80,504	85,424	**165,928**
Operating (loss) income	(26,052)	11,020	**(15,032)**	(37,677)	9,334	**(28,343)**
Other income (expenses):						
Net gain on sale of assets	—	64,991	**64,991**	—	—	—
Interest expense	(6,393)	—	**(6,393)**	(9,182)	—	**(9,182)**
Taxes, other than income taxes	(2,367)	(721)	**(3,088)**	(1,567)	(1,509)	**(3,076)**
Other	(125)	—	**(125)**	(177)	—	**(177)**
Total other (expenses) income	(8,885)	64,270	**55,385**	(10,926)	(1,509)	**(12,435)**
Net (loss) income before taxes	$ (34,937)	$ 75,290	**$ 40,353**	$ (48,603)	$ 7,825	**$ (40,778)**

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

In addition to the foregoing results of operations presented in accordance with GAAP, we utilize various non-GAAP operating and business metrics to analyze the Company's performance. We believe these metrics provide useful insight into the Company's performance, assist us in identifying trends in our business, and better allow us to compare our performance to others in our industry. We describe below these various non-GAAP metrics and provide a reconciliation of these metrics for the nine months ended March 31, 2011 and 2010, to the most directly comparable GAAP measures for those periods. See the reconciliation of net income to adjusted EBITDA on page 30. 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, Adjusted Contracted Margin, and Total Adjusted Margin

We separate merchant margin and adjusted contracted margin because the distinction helps us analyze the certainty of future cash flows of the Company and the underlying commodity value of the Company's assets.

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 Hinds and Hot Spring plants, and considered our former Murray II and Sandersville plants to be merchant plants because they are not selling their energy output and capacity pursuant to long-term sales agreements during these reporting periods.

	For the Nine Months Ended March 31, 2011	For the Nine Months Ended March 31, 2010
Energy sales	$ 137,837	$ 99,091
Less: Cost of fuel	(117,089)	(84,538)
Less: Contracted energy sales	(33,882)	(22,655)
Add: Contracted cost of fuel	34,681	23,568
Merchant energy margin	21,547	15,466
Capacity sales	41,269	38,494
Less: Contracted capacity sales	(37,153)	(37,555)
Merchant capacity sales	4,116	939
Merchant margin	$ 25,663	$ 16,405

Adjusted contracted margin is equal to the sum of adjusted contracted energy margin and adjusted contracted capacity sales. Adjusted contracted energy margin is defined as energy sales less the related cost of fuel pursuant to arrangements having an original delivery term of one year or greater adjusted to remove the income effects of noncash amortization of contract-based intangibles. Adjusted contracted capacity sales is defined as capacity sales pursuant to arrangements having an original delivery term of one year or greater adjusted to remove the income effects of noncash deferred capacity revenue to levelize the capacity sales over the term of the agreement as required by GAAP. We believe that the foregoing adjustments are helpful in understanding the commercial results of our contractual arrangements without the impact of noncash accounting adjustments. We considered Murray I to be contracted, because it was selling its energy output and capacity pursuant to the long-term GPC PPA.

	For the Nine Months Ended March 31, 2011	For the Nine Months Ended March 31, 2010
Energy sales	$ 137,837	$ 99,091
Less: Merchant sales	(103,955)	(76,436)
Contracted energy sales	33,882	22,655
Less: Contracted cost of fuel	(34,681)	(23,568)
Add: Power sales rights and obligations amortization	4,732	6,084
Adjusted contracted energy margin	3,933	5,171
Contracted capacity sales	37,153	37,555
Add: Noncash deferred capacity revenue	661	7
Adjusted contracted capacity sales	37,814	37,562
Adjusted contracted margin	$ 41,747	$ 42,733

Total adjusted margin is equal to the sum of merchant margin and adjusted contracted margin.

	For the Nine Months Ended March 31, 2011	For the Nine Months Ended March 31, 2010
Merchant margin	$ 25,663	$ 16,405
Adjusted contracted margin	41,747	42,733
Total adjusted margin	$ 67,410	$ 59,138

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 and adjusted contracted 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 fees 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, 2011	For the Nine Months Ended March 31, 2010
Total operating expenses	$ 194,138	$ 165,928
Less: Cost of fuel	(117,089)	(84,538)
Less: Major maintenance expense	(5,960)	(14,115)
Less: Gas transportation noncash amortization	(529)	(902)
Less: Selling, general, and administrative expense	(10,449)	(9,175)
Less: Termination and transition costs	—	(612)
Less: Depreciation	(14,638)	(18,264)
Less: D&O insurance expense	(126)	(137)
Add: Taxes, other than income taxes	3,088	3,076
Adjusted plant expenses	$ 48,435	$ 41,261

Adjusted corporate expenses is defined as selling, general, and administrative expense adjusted for (a) the removal of noncash stock compensation expense and reorganization items such as employee severance, (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, 2011	For the Nine Months Ended March 31, 2010
Selling, general, and administrative expense	$ 10,449	$ 9,175
Less: Noncash employee options/awards expense	(1,101)	(866)
Add (Less): Employee severance expense	6	(1)
Less: Sale of plant expense	(5)	—
Add: D&O insurance expense	126	137
Adjusted corporate expenses	$ 9,475	$ 8,445

Adjusted Plant EBITDA and Adjusted EBITDA:

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

	For the Nine Months Ended March 31, 2011	For the Nine Months Ended March 31, 2010	Favorable/Unfavorable) Change	% Change
Merchant energy margin	$ 21,547	$ 15,466	$ 6,081	39%
Merchant capacity sales	4,116	939	3,177	338%
Merchant margin	25,663	16,405	9,258	56%
Adjusted contracted energy margin	3,933	5,171	(1,238)	(24%)
Adjusted contracted capacity sales	37,814	37,562	252	1%
Adjusted contracted margin	41,747	42,733	(986)	(2%)
Total adjusted margin	67,410	59,138	8,272	14%
Adjusted plant expenses	48,435	41,261	(7,174)	(17%)
Adjusted plant EBITDA	18,975	17,877	1,098	6%
Adjusted corporate expenses	9,475	8,445	(1,030)	(12%)
Adjusted EBITDA	$ 9,500	$ 9,432	$ 68	1%

Selected Operating and Business Metrics

	For the Nine Months Ended March 31, 2011	For the Nine Months Ended March 31, 2010	Favorable/(Unfavorable) Change	% Change
Selected Financial and Operating Data				
Total generation (GWh)	3,435	2,843	592	21%
Merchant generation (GWh)	2,476	2,183	293	13%
Merchant margin/merchant generation ($/MWh)	$ 10.36	$ 7.51	$ 2.85	38%

Selected Market and Weather Data

	For the Nine Months Ended March 31, 2011	For the Nine Months Ended March 31, 2011	Change	% Change
Selected Market Data(1)				
Average on-peak market power price— Entergy ($/MWh)...	$ 36.89	$ 34.97	$ 1.92	5%
Average on-peak market power price— Southern ($/MWh)...	$ 40.03	$ 37.31	$ 2.72	7%
Average Henry Hub gas price ($/MMbtu)..........	$ 4.08	$ 4.19	$ (0.11)	(3%)
Selected Weather Data				
Actual CDDs(2)..	4,917	3,710	1,207	33%
Normal CDDs...	3,760	3,760	—	0%
Actual HDDs(3)..	7,939	8,926	(987)	(11%)
Normal HDDs...	7,915	7,915	—	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, 2011 compared to the Nine Months Ended March 31, 2010.

Total adjusted margin increased $8.3 million, or 14%, to $67.4 million for the nine months ended March 31, 2011 compared to the same period in the previous year as a result of a $9.3 million increase in merchant margin offset by a $1.0 million decrease in adjusted contracted margin. The $67.4 million in total adjusted margin was comprised of $25.7 million in merchant margin and $41.7 million in adjusted contracted margin.

Merchant margin increased $9.3 million, or 56%, to $25.7 million for the nine months ended March 31, 2011. The $9.3 million increase was made up of a $6.1 million increase in merchant energy margin and a $3.2 million increase in merchant capacity sales. The $6.1 million increase in merchant energy margin related primarily to warmer weather as evidenced by a 33% increase in CDDs. Merchant generation increased by 13% from 2,183 GWh to 2,476 GWh for the nine months ended March 31, 2011 as compared to the previous year. The implied merchant spark spread, or merchant margin divided by merchant generation, increased from $7.51 per MWh to $10.36 per MWh, largely due to the increase in merchant capacity sales and warmer weather. Merchant margin was also impacted by operational issues associated with the Hot Spring facility's inlet chiller system. These issues were repaired at the facility's spring 2011 outage and an insurance claim was filed in connection herewith.

Adjusted contracted margin decreased $1.0 million, or 2%, to $41.7 million for the nine months ended March 31, 2011, which was comprised of $3.9 million in adjusted contracted energy margin and $37.8 million in adjusted contracted capacity sales. The $1.0 million decrease was made up of a $1.2 million decrease in the adjusted contracted energy margin offset by a $0.2 million increase in the adjusted contracted capacity sales. The $0.2 million increase in adjusted contracted capacity sales was a result of the escalation of the pricing in the GPC PPA. During November and December 2010, an extended outage occurred at our Murray power generation facility to repair the high pressure piping at Murray I and II, the Murray II steam turbine generator rotor, and other related items resulting in costs of approximately $2.7 million. During the outage, we provided replacement power at a cost of approximately $1.5 million from other sources to Georgia Power in accordance with the GPC PPA. The cost of the replacement power negatively impacted our adjusted contracted capacity sales by $0.5 million and our adjusted contracted energy margin by $1.0 million.

Adjusted plant expenses increased by $7.2 million, or 17%, to $48.4 million for the nine months ended March 31, 2011. The increase related primarily to a $5.4 million increase in operating and maintenance expenses primarily by repairs to the inlet chiller system and one of the gas turbine compressors at Hot Spring for which an insurance claim was filed in connection herewith, additional unscheduled maintenance at the Murray facilities, and an increase in gas transportation of $1.8 million offset by a $0.3 million decrease in insurance expense. The increase in gas transportation is associated with enhanced firm transportation purchased for July through September 2010 and November 2010 through February 2011.

As a result of the foregoing changes in total adjusted margin and adjusted plant expenses, adjusted plant EBITDA increased by $1.1 million to $19.0 million for the nine months ended March 31, 2011.

Adjusted corporate expenses increased by $1.0 million, or 12%, to $9.5 million for the nine months ended March 31, 2011. The increase primarily related to a $0.7 million of increased legal expenses related to our sales transactions and an increase in commercial marketing fees of $0.3 million associated with the increase in merchant sales for the nine months ended March 31, 2011 compared to the nine months ended March 31, 2010.

As a result of the foregoing, adjusted EBITDA increased by $0.1 million to $9.5 million for the nine months ended March 31, 2011.

GAAP to Non-GAAP Adjusted EBITDA Reconciliation

Following is an alternative calculation of adjusted EBITDA and adjusted plant EBITDA starting from net loss after taxes. EBITDA is equal to net income (loss) after 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, 2011	**For the Nine Months Ended March 31, 2010**
Net income (loss) before taxes	$ 40,353	$ (40,778)
Add: Interest expense	6,393	9,182
Add: Depreciation	14,638	18,264
Add: Power sales rights and obligations amortization	4,732	6,084
Add: Gas transportation noncash amortization	529	902
Add (Less): Noncash deferred capacity revenue	661	7
Add: Other expenses	125	177
EBITDA	67,431	(6,162)
Less: Net gain on sale of assets	(64,991)	—
Add: Major maintenance expense	5,960	14,115
Add: Termination and transition costs	—	612
Add: Noncash employee options/awards expense	1,101	866
Add (Less): Employee severance expense	(6)	1
Add: Sale of plant expense	5	—
Adjusted EBITDA	9,500	9,432
Add: Selling, general, and administrative expense	10,449	9,175
Less: Noncash employee options/awards expense	(1,101)	(866)
Add (Less): Employee severance expense	6	(1)
Less: Sale of plant expense	(5)	—
Add: D&O insurance expense	126	137
Adjusted plant EBITDA	$ 18,975	$ 17,877

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 income after taxes using these financial measures for the nine months ended March 31, 2011 compared to the nine months ended March 31, 2010.

- Interest expense for the nine months ended March 31, 2011 was $6.4 million compared to $9.2 million for the same period in 2010. The $2.8 million decrease was made up of a $0.7 million decrease due to lower outstanding debt amounts compared to the same period in the previous year, and $2.1 million in losses on derivatives associated with our interest rate hedging and cash payments on our Swaps.

- Depreciation was $14.6 million and $18.3 million for the nine months ended March 31, 2011 and 2010, respectively. The $3.7 million decrease was due to the suspension of depreciation related to the Murray and Sandersville plants, $1.9 million and $1.8 million respectively.

- Amortization of contract-based power sales rights and obligations was $4.7 million and $6.1 million for the nine months ended March 31, 2011 and 2010, respectively, was recorded as a reduction of energy sales. The $1.4 million decrease was due to suspension of amortization on the Murray intangibles due to its Held for Sale status as of January 31, 2011.

- Amortization of contract-based natural gas transportation rights and obligations was $0.5 million and $0.9 million for the nine months ended March 31, 2011 and 2010, respectively, and was recorded as an increase of gas transportation expense.

- Noncash deferred capacity revenue, which represents the levelization of capacity sales over the GPC PPA term, of $0.7 million and $7.0 thousand of expense for the nine months ended March 31, 2011 and 2010, respectively, was recorded as capacity sales.

- Other expense was $0.1 million and $0.2 million for the nine months ended March 31, 2011 and 2010, respectively.

- Net gain on sale of assets was $65.0 million and zero for the nine months ended March 31, 2011 and 2010, respectively. The net gain on sale of assets is related to the sale of the Sandersville facility on July 9, 2010.

- Major maintenance expense for the nine months ended March 31, 2011 and 2010 was $6.0 million and $14.1 million, respectively. The $6.0 million expense primarily related to $2.3 million of major maintenance at the Hot Spring plant, a $1.7 million payment to GE as a result of restructuring the long-term service agreements with GE, $1.6 million of major maintenance performed at the Murray II facility, $0.4 million performed at the Hinds facility. The $14.1 million expense primarily related to $15.1 million in connection with the spring 2010 hot gas path inspection performed at the Hinds plant offset by $1.0 million of income for the nine months ended March 31, 2010 related to a credit from GE for repair work at Murray I.

- Noncash employee options/awards expense for the nine months ended March 31, 2011 and 2010 was $1.1 million and $0.9 million, respectively, and was recorded as an increase of selling, general, and administrative expense.

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

- Selling, general, and administrative expense was $10.4 million and $9.2 million for the nine months ended March 31, 2011 and 2010, respectively. The $1.2 million increase was primarily related to a $0.7 million of increased legal expenses related to our sales transactions, an increase in commercial marketing fees of $0.3 million associated with the increase in merchant sales, and $0.2 million increase in noncash employee options/awards expenses.

Liquidity and Capital Resources

Liquidity Position

Historically, our cash on hand, cash flow provided by operations, and cash available under our Credit Facility satisfied our liquidity needs with respect to our current portfolio of assets. Our liquidity was comprised of the following at March 31, 2011 (in thousands of dollars):

Unrestricted cash and cash equivalents	$ 116,710
Working capital revolver and synthetic letter of credit facility (net of letters of credit issued thereunder)	72,036
Total	$ 188,746

Historically, our principal sources of funds were cash flows from operations and borrowings under our Credit Facility. Our principal use of funds consisted of operating expenditures, payments of principal and interest on our Credit Facility, and capital expenditures. On March 31, 2011, we had $72.0 million available under our Credit Facility, of which $37.5 million was under the working capital revolver and $34.5 million was under the synthetic letter of credit facility, for activities related to our plants. We had unrestricted cash on hand of $116.7 million, of which $41.2 million was cash at the parent level and not subject to the lien of the Credit Agreement at March 31, 2011. Similarly, $27.9 million was the balance at the parent level not subject to the Credit Agreement at June 30, 2010. The increase at the parent level relates to a $19.5 million cash distribution made by KGen LLC to its parent KGen Power Corporation upon receipt of the Sandersville cash sales proceeds.

Debt and Credit Facility

Our only debt for borrowed money was evidenced by our Credit Facility, which consisted of:

- a $200.0 million term loan facility, or the Term Loan Facility;
- an $80.0 million working capital facility for letters of credit and other liquidity needs, or the Working Capital Facility; and
- a $120.0 million synthetic letter of credit facility to support the collateral requirements under the project documents related to the facilities, or the Collateral Credit Facility.

Borrowings under the Term Loan Facility were made in 2007 by KGen LLC, our subsidiary, and were used to refinance existing indebtedness of KGen LLC, pay fees and expenses relating to the Credit Facility, and fund required reserves.

On August 18, 2010, the Company prepaid $58.5 million of its outstanding term debt and $10.0 million of its outstanding working capital facility using a portion of the proceeds received from the sale of 100% of the ownership interests in KGen Sandersville LLC, the entity that owned the Sandersville power generation facility (See Note 12). In connection with this prepayment, the Company reduced its principal payment requirement of $2.0 million per year to $1.4 million per year with quarterly installments beginning September 30, 2010. KGen LLC distributed $19.5 million of the cash sales proceeds received to its parent, KGen Power Corporation. In addition, there were $0.5 million of outstanding letters of credit issued under the working capital facility and $14.4 million of outstanding letters of credit issued under the Collateral Credit Facility that related to Sandersville and were cancelled following the sale of 100% of the ownership interests in KGen Sandersville LLC.

Total letters of credit outstanding under the Working Capital Facility were $42.5 million as of March 31, 2011. Total letters of credit issued under the Collateral Credit Facility were $85.5 million as of March 31, 2011.

In connection with the closing of the sale of KGen Murray I and II LLC on April 8, 2011, KGen LLC was required to repay all outstanding debt under the Credit Facility and to terminate the Working Capital Facility and Collateral Credit Facility. The Company also elected to unwind the remaining interest rate Swaps.

We received aggregate consideration of $531.3 million in cash in connection with the closing of the sale of KGen Murray I and II LLC, subject to a decrease based on purchase price adjustments for working capital and spare parts inventory. The net proceeds we received as a result of the sale were approximately $506.3 million, after giving effect to taxes, transaction fees, and expenses and cash bonuses we were required to pay in connection with the sale.

We used $138.0 million of net proceeds from the sale to repay all of the outstanding debt under the Credit Facility and the related Swaps. Under the terms of the agreement for the sale of Murray I and II LLC, $79.7 million of the purchase price was placed in escrow for a period of 18 months after closing to secure our post-closing indemnification obligations. The Board of Directors expects to make a distribution to stockholders out of the net proceeds of the sale of KGen Murray I and II LLC.

In addition, subsequent to the repayment of all outstanding debt under the Credit Facility, a $75.0 million replacement cash collateralized letter of credit facility was entered into on April 8, 2011 of which $39.1 million of letters of credit have been issued. The $39.1 million of cash collateral supporting this letter of credit facility was recorded to 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. Fronting 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 and nine months ended March 31, 2011 were $1.2 and $2.6 million, respectively. Total capital expenditures for the three and nine months ended March 31, 2010 were $0.4 million and $1.9 million, respectively.

Major maintenance expense was $2.4 million and $15.1 million for the three months ended March 31, 2011 and 2010, respectively. The $2.4 million expense was related to $0.3 million of major maintenance at the Murray II plant and $2.1 million of major maintenance at the Hot Spring plant. The $15.1 million expense for the three months ended March 31, 2010 related to a hot gas path inspection at the Hinds plant. Major maintenance expense was $6.0 million and $14.1 million for the nine months ended March 31, 2011 and 2010. The $6.0 million expense primarily related to $2.3 million of major maintenance at the Hot Spring plant, a $1.7 million payment to GE as a result of restructuring the long-term service agreements with GE, $1.6 million of major maintenance performed at the Murray II facility, $0.4 million performed at the Hinds facility. The $14.1 million expense primarily related to $15.1 million in connection with the spring 2010 hot gas path inspection performed at the Hinds plant offset by $1.0 million of income related to a credit from GE for repair work at Murray I.

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 additional major maintenance expenses for the remainder of fiscal 2011. We expect to incur $1.0 million in major maintenance expenses in fiscal 2012.

Cash Flow Analysis

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

	For the Nine Months Ended March 31, 2011	For the Nine Months Ended March 31, 2010
Statements of Cash Flows Data:		
Cash flows provided by (used in):		
Operating activities	$ 16,668	$ (5,872)
Investing activities	121,454	20,433
Financing activity	(69,589)	(1,500)
Increase in cash and cash equivalents	68,533	13,061
Cash and cash equivalents at beginning of period	48,177	40,663
Cash and cash equivalents at end of period	$ 116,710	$ 53,724

Cash Flows from Operating Activities. Our cash flows provided by operations were $16.7 million for the nine months ended March 31, 2011, primarily related to a net income of $40.4 million, depreciation expense of $14.6 million, amortization expense of $5.9 million, valuation of derivative instruments of $1.1 million, stock-based compensation of $1.1 million, an increase in accounts receivable of $23.1 million, an increase in prepaid expenses and other current assets of $1.1 million, and an increase in deferred charge of 0.7 million, which was offset primarily by a net gain on sale of assets of $65.0 million, payments from settlement of derivative instruments of $3.6 million, a $0.1 million decrease in spare parts inventories, and a decrease in accounts payable and accrued liabilities of $2.7 million. We also incurred $4.6 million of cash interest during the period under our outstanding Credit Facility.

Cash Flows from Investing Activities. Our cash flows provided by investing activities for the nine months ended March 31, 2011 were $121.5 million and related to a sale of assets of $127.8 million, offset by purchases of $4.0 million in short-term investments, $2.1 million in purchases of property, plant, and equipment, and $0.2 million use of restricted cash and cash equivalents.

Cash Flows from Financing Activity. Our cash flows used in financing activity for the nine months ended March 31, 2011 were $69.6 million and represented a prepayment of $58.5 million of the outstanding term debt and $10.0 million of the outstanding working capital facility as well as $1.1 million in principal payments of long-term debt as required by the Credit Facility.

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, 2010.

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. These risks and uncertainties are discussed above, and in the “Cautionary Statement concerning Forward Statements” and Part I. “Number 1A. Risk Factors” in our Annual Report for the fiscal year ended June 30, 2010 and also include risks of the following:

- the occurrence of any event, change, or other circumstances that could give rise to the termination of the agreements for the sale of our Hinds and Hot Spring facilities, including a termination of those agreements under circumstances that could require us to pay a termination fee of up to $9.5 million under each agreement;
- our inability to complete the sale transactions due to the failure to satisfy conditions to completion of the transactions, including receipt of stockholder or required regulatory approvals;
- the failure of the transactions to close for any other reason;
- the possibility that we may be required to make indemnification payments to Oglethorpe out of, or in excess of, the $80.0 million of the purchase price that has been placed into escrow to secure post-closing indemnification obligations;
- in the connection with the sale of our Hinds and Hot Spring facilities, the possibility that we may be required to make indemnification out of, or in excess of $30.0 million of the Hinds purchase price or $38.0 million of the Hot Spring purchase price that will be placed in escrow because of post-closing indemnification obligations;
- the potential difficulties in the retention of executive management and other key employees;
- limitations on our ability to utilize our NOLs to offset taxable gain from the sale transactions;
- and our remaining power generation plants (after the sale of KGen Murray I and II LLC) are expected to be free cash flow negative for the foreseeable future and we may not generate sufficient cash or otherwise have sufficient liquidity to operate those plants.

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

On March 17, 2011, we held a special meeting of shareholders. At the meeting, the following proposals were voted upon and approved:

Other Matters

	For	Against	Abstain	Broker Non-Votes
Approval of the sale to Oglethorpe Power Corporation of all of the membership interests of the Company's subsidiary KGen Murray I and II LLC...........................	50,203,228	—	—	—