

NRG ENERGY SERVICES LLC  
Form S-4  
September 10, 2014

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As filed with the Securities and Exchange Commission on September 10, 2014

No. 333-

## SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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### FORM S-4

REGISTRATION STATEMENT  
UNDER  
THE SECURITIES ACT OF 1933

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### NRG Energy, Inc.\*

(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**4911**  
(Primary Standard Industrial  
Classification Code Number)

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**41-1724239**  
(I.R.S. Employer  
Identification No.)

**211 Carnegie Center, Princeton, NJ 08540**  
**Telephone: (609) 524-4500**  
(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

---

**David R. Hill**  
**Executive Vice President and General Counsel**  
**211 Carnegie Center**  
**Princeton, NJ 08540**  
**Telephone: (609) 524-4500**  
(Name, address, including zip code, and telephone number, including area code, of agent for service)

**Copies of all communications, including communications sent to agent for service, should be sent to:**

**Gerald T. Nowak, P.C.**  
**Paul D. Zier**  
**Kirkland & Ellis LLP**  
**300 North LaSalle Street**  
**Chicago, Illinois 60654**

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(312) 862-2000

\*

The Co-Registrants listed on the next page are also included in this Form S-4 Registration Statement as additional Registrants.

**Approximate date of commencement of proposed sale of the securities to the public:  
The exchange will occur as soon as practicable after the effective date of this Registration Statement.**

If the securities being registered on this Form are being offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box.

If this Form is filed to registered additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company   
(Do not check if a smaller reporting company)

If applicable, place an X in the box to designate the appropriate rule provision relied upon in conducting this transaction:

Exchange Act Rule 13e-4(i) (Cross-Border Issuer Tender Offer):

Exchange Act Rule 14d-1(d) (Cross-Border Third-Party Tender Offer):

**CALCULATION OF REGISTRATION FEE**

Title of Each Class of Securities to be Registered	Amount to be Registered	Proposed Maximum Offering Price Per Unit(1)	Amount of Registration Fee
6.25% Senior Notes due 2022	\$1,100,000,000	100%	\$141,680
Guarantees related to the 6.25% Senior Notes due 2022(2)			(3)

(1) Calculated in accordance with Rule 457 under the Securities Act of 1933, as amended.

(2) No separate consideration was received for the issuance of the guarantees.

(3) Pursuant to Rule 457(n), no separate fee is payable with respect to the guarantees being registered hereby.

**The Registrants hereby amend this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrants shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until this Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.**

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<b>Exact Name of Additional Registrants*</b>	<b>Jurisdiction of Formation</b>	<b>I.R.S. Employer Identification No.</b>
Ace Energy, Inc.	New York	20-1614426
Allied Warranty LLC	Texas	20-1813150
Arthur Kill Power LLC	Delaware	41-1937649
Astoria Gas Turbine Power LLC	Delaware	41-1937470
Bayou Cove Peaking Power, LLC	Delaware	36-4498942
BidURenergy, Inc.	New York	20-3980208
Cabrillo Power I LLC	Delaware	76-0595964
Cabrillo Power II LLC	Delaware	76-0595963
Carbon Management Solutions LLC	Delaware	27-2238021
Cirro Energy Services, Inc.	Texas	20-2579156
Cirro Group, Inc.	Texas	75-2941421
Clean Edge Energy LLC	Delaware	27-2244275
Conemaugh Power LLC	Delaware	41-1973743
Connecticut Jet Power LLC	Delaware	41-1949386
Cottonwood Development LLC	Delaware	52-2220177
Cottonwood Energy Company LP	Delaware	76-0635621
Cottonwood Generating Partners I LLC	Delaware	76-0635620
Cottonwood Generating Partners II LLC	Delaware	52-2236732
Cottonwood Generating Partners III LLC	Delaware	52-2236738
Cottonwood Technology Partners LP	Delaware	76-0669423
Devon Power LLC	Delaware	41-1949385
Dunkirk Power LLC	Delaware	41-1937466
Eastern Sierra Energy Company LLC	California	33-0299028
El Segundo Power, LLC	Delaware	41-1893999
El Segundo Power II LLC	Delaware	76-0663675
Elbow Creek Wind Project LLC	Texas	26-0765836
Energy Alternatives Wholesale, LLC	Delaware	455420194
Energy Curtailment Specialists, Inc.	New York	20-0462805
Energy Plus Holdings LLC	Delaware	74-3216390
Energy Plus Natural Gas LLC	Delaware	27-3309340
Energy Protection Insurance Company	Vermont	27-3660148
Everything Energy LLC	Delaware	26-3576595
GCP Funding Company, LLC	Delaware	33-0334380
Green Mountain Energy Company	Delaware	03-0360441
Gregory Partners, LLC	Delaware	51-0382110
Gregory Power Partners LLC	Delaware	54-1910630
Huntley Power LLC	Delaware	41-1937468
Independence Energy Alliance LLC	Delaware	45-1139369
Independence Energy Group LLC	Delaware	27-4408520
Independence Energy Natural Gas LLC	Delaware	
Indian River Operations Inc.	Delaware	41-1973349
Indian River Power LLC	Delaware	41-1973747
Keystone Power LLC	Delaware	41-1973744
Langford Wind Power, LLC	Texas	26-4418527
Lone Star A/C & Appliance Repair, LLC	Texas	20-4278795
Louisiana Generating LLC	Delaware	41-1870498
Meriden Gas Turbines LLC	Delaware	41-1991989
Middletown Power LLC	Delaware	41-1949384
Montville Power LLC	Delaware	41-1949383
NEO Corporation	Minnesota	41-1753235

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<b>Exact Name of Additional Registrants*</b>	<b>Jurisdiction of Formation</b>	<b>I.R.S. Employer Identification No.</b>
NEO Freehold-Gen LLC	Delaware	41-1980237
NEO Power Services Inc.	Delaware	23-3043507
New Genco GP, LLC	Delaware	02-0732611
Norwalk Power LLC	Delaware	41-1949381
NRG Affiliate Services Inc.	Delaware	41-1960764
NRG Artesian Energy LLC	Delaware	27-2243660
NRG Arthur Kill Operations Inc.	Delaware	41-1939116
NRG Astoria Gas Turbine Operations Inc.	Delaware	41-1939115
NRG Bayou Cove LLC	Delaware	41-2016940
NRG Business Solutions LLC	Delaware	45-5124984
NRG Cabrillo Power Operations Inc.	Delaware	41-1938132
NRG California Peaker Operations LLC	Delaware	20-0088453
NRG Cedar Bayou Development Company, LLC	Delaware	26-0601018
NRG Connecticut Affiliate Services Inc.	Delaware	41-1952333
NRG Construction LLC	Delaware	26-0496159
NRG Curtailment Solutions LLC	Delaware	46-3377471
NRG Development Company Inc.	Delaware	41-1959656
NRG Devon Operations Inc.	Delaware	41-1950239
NRG Dispatch Services LLC	Delaware	45-5214920
NRG Dunkirk Operations Inc.	Delaware	41-1939114
NRG El Segundo Operations Inc.	Delaware	41-1929997
NRG Energy Labor Services LLC	Delaware	27-5345464
NRG Energy Services Group LLC	Delaware	27-3915519
NRG Energy Services International Inc.	Delaware	61-1721905
NRG Energy Services LLC	Delaware	41-1978725
NRG Generation Holdings, Inc.	Delaware	20-1911335
NRG Home & Business Solutions LLC	Delaware	90-0835027
NRG Home Solutions LLC	Delaware	46-1569642
NRG Home Solutions Product LLC	Delaware	45-5215213
NRG Homer City Services LLC	Delaware	30-0749587
NRG Huntley Operations Inc.	Delaware	41-1939118
NRG Identity Protect LLC	Delaware	45-5224616
NRG Ilion Limited Partnership	Delaware	36-3783670
NRG Ilion LP LLC	Delaware	41-2016939
NRG International LLC	Delaware	41-1744096
NRG Maintenance Services LLC	Delaware	20-8088165
NRG Mextrans Inc.	Delaware	41-1951078
NRG MidAtlantic Affiliate Services Inc.	Delaware	41-1996587
NRG Middletown Operations Inc.	Delaware	41-1950236
NRG Montville Operations Inc.	Delaware	41-1950237
NRG New Jersey Energy Sales LLC	Delaware	03-0412726
NRG New Roads Holdings LLC	Delaware	41-1968966
NRG North Central Operations Inc.	Delaware	41-2004025
NRG Northeast Affiliate Services Inc.	Delaware	41-1940300
NRG Norwalk Harbor Operations Inc.	Delaware	41-1950238
NRG Operating Services, Inc.	Delaware	41-1744095
NRG Oswego Harbor Power Operations Inc.	Delaware	41-1939117
NRG PacGen Inc.	Delaware	41-1889830
NRG Portable Power LLC	Delaware	45-5224676
NRG Power Marketing LLC	Delaware	41-1910737
NRG Reliability Solutions LLC	Delaware	45-5411416
NRG Renter's Protection LLC	Delaware	45-5224780

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Exact Name of Additional Registrants*	Jurisdiction of Formation	I.R.S. Employer Identification No.
NRG Retail LLC	Delaware	26-4341161
NRG Retail Northeast LLC	Delaware	46-4014866
NRG Rockford Acquisition LLC.	Delaware	41-2011003
NRG Saguro Operations Inc.	Delaware	41-2013262
NRG Security LLC	Delaware	45-5215086
NRG Services Corporation	Delaware	41-1841627
NRG SimplySmart Solutions LLC	Delaware	27-4204481
NRG South Central Affiliate Services Inc.	Delaware	41-1996193
NRG South Central Generating LLC	Delaware	41-1963217
NRG South Central Operations Inc.	Delaware	41-2002465
NRG South Texas LP	Texas	30-0083668
NRG Texas C&I Supply LLC	Delaware	26-4555466
NRG Texas Gregory LLC	Delaware	
NRG Texas Holding Inc.	Delaware	26-4775586
NRG Texas LLC	Delaware	20-1504355
NRG Texas Power LLC	Delaware	34-2019301
NRG Warranty Services LLC	Delaware	45-5224719
NRG West Coast LLC	Delaware	41-1942517
NRG Western Affiliate Services Inc.	Delaware	41-1949168
O'Brien Cogeneration, Inc. II	Delaware	23-2414656
ONSITE Energy, Inc.	Oregon	93-0910742
Oswego Harbor Power LLC	Delaware	41-1937465
RE Retail Receivables, LLC	Delaware	41-2046596
Reliant Energy Northeast LLC	Delaware	32-0314140
Reliant Energy Power Supply, LLC	Delaware	204823108
Reliant Energy Retail Holdings, LLC	Delaware	76-0655580
Reliant Energy Retail Services, LLC	Delaware	76-0655567
RERH Holdings, LLC	Delaware	20-5222227
Saguro Power LLC	Delaware	41-2013654
Somerset Operations Inc.	Delaware	41-1923722
Somerset Power LLC	Delaware	41-1924606
Texas Genco Financing Corp.	Delaware	27-0110393
Texas Genco GP, LLC	Texas	75-3013803
Texas Genco Holdings, Inc.	Texas	76-0695920
Texas Genco LP, LLC	Delaware	30-0381697
Texas Genco Operating Services LLC	Delaware	75-3172707
Texas Genco Services, LP	Texas	38-3694336
US Retailers LLC	Delaware	26-3576629
Vienna Operations Inc.	Delaware	41-1973351
Vienna Power LLC	Delaware	41-1973745
WCP (Generation) Holdings LLC	Delaware	74-2922374
West Coast Power LLC	Delaware	36-4301246

\*

The address for each of the additional Registrants is c/o NRG Energy, Inc., 211 Carnegie Center, Princeton, NJ 08540, telephone: (609) 524-4500. The primary standard industrial classification number for each of the additional Registrants is 4911.

The name, address, including zip code of the agent for service for each of the additional Registrants is David R. Hill, Executive Vice President and General Counsel of NRG Energy, Inc., 211 Carnegie Center, Princeton, NJ 08540, Telephone: (609) 524-4500.

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**The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. The prospectus is not an offer to sell these securities nor a solicitation of an offer to buy these securities in any jurisdiction where the offer and sale is not permitted.**

**Subject to Completion Dated September 10, 2014**

**PRELIMINARY PROSPECTUS**

**NRG Energy, Inc.**

**Exchange Offer for  
\$1,100,000,000 6.25% Senior Notes due 2022**

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**We are offering to exchange:  
up to \$1,100,000,000 of our new 6.25% Senior Notes due 2022  
(which we refer to as the "Exchange Notes")  
for  
a like amount of our outstanding 6.25% Senior Notes due 2022  
(which we refer to as the "Old Notes")**

**We refer to the Exchange Notes and Old Notes collectively as the "notes."**

**Material Terms of Exchange Offer:**

The terms of the Exchange Notes to be issued in the exchange offer are substantially identical to the Old Notes, except that the transfer restrictions and registration rights relating to the Old Notes will not apply to the Exchange Notes.

The Exchange Notes will be guaranteed on a full and unconditional and joint and several basis by each of our current and future restricted subsidiaries, excluding certain foreign, project and immaterial subsidiaries.

There is no existing public market for the Old Notes or the Exchange Notes. We do not intend to list the Exchange Notes on any securities exchange or seek approval for quotation through any automated trading system.

You may withdraw your tender of Old Notes at any time before the expiration of the exchange offer. We will exchange all of the Old Notes that are validly tendered and not withdrawn.

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The exchange offer expires at 12:00 midnight, New York City time, on \_\_\_\_\_, 2014, unless extended.

The exchange of Old Notes will not be a taxable event for U.S. federal income tax purposes.

The exchange offer is subject to certain customary conditions, including that it not violate applicable law or any applicable interpretation of the Staff of the Securities and Exchange Commission (the "SEC").

We will not receive any proceeds from the exchange offer.

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**For a discussion of certain factors that you should consider before participating in this exchange offer, see "Risk Factors" beginning on page 12 of this prospectus.**

Neither the SEC nor any state securities commission has approved the notes to be distributed in the exchange offer, nor have any of these organizations determined that this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

Each broker-dealer that receives Exchange Notes for its own account pursuant to this exchange offer must acknowledge that it will deliver a prospectus in connection with any resale of such Exchange Notes. The letter of transmittal accompanying this prospectus states that by so acknowledging and by delivering a prospectus, a broker-dealer will not be deemed to admit that it is an "underwriter" within the meaning of the Securities Act of 1933, as amended (the "Securities Act"). This prospectus, as it may be amended or supplemented from time to time, may be used by a broker-dealer in connection with resales of Exchange Notes where the Old Notes were acquired by such broker-dealer as a result of market-making activities or other trading activities. We have agreed that, starting on the expiration date and ending on the close of business one year after the expiration date, we will make this prospectus available, as amended or supplemented, to any broker-dealer for use in connection with any such resale. See "Plan of Distribution."

\_\_\_\_\_, 2014

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**WHERE YOU CAN FIND MORE INFORMATION**

We file annual, quarterly and special reports, proxy statements and other information with the SEC. You can inspect and copy these reports, proxy statements and other information at the Public Reference Room of the SEC, 100 F Street, N.E., Room 1580, Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the Public Reference Room. Our SEC filings will also be available to you on the SEC's website. The address of this site is <http://www.sec.gov>.



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**INCORPORATION BY REFERENCE**

The SEC allows us to "incorporate by reference" the information we file with them into this prospectus, which means that we can disclose important information to you by referring you to those documents and those documents will be considered part of this prospectus. Information that we file later with the SEC will automatically update and supersede the previously filed information. We incorporate by reference the documents listed below and any future filings we make with the SEC under Sections 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), until the completion of the exchange offer (other than portions of these documents deemed to be "furnished" or not deemed to be "filed," including the portions of these documents that are either (1) described in paragraphs (d)(1), (d)(2), (d)(3) or (e)(5) of Item 407 of Regulation S-K promulgated by the SEC or (2) furnished under Item 2.02 or Item 7.01 of a current report on Form 8-K, including any exhibits included with such Items):

Our annual report on Form 10-K for the year ended December 31, 2013 filed on February 28, 2014, as amended by Amendment No. 1 filed on April 4, 2014, and as further amended by Amendment No. 2 filed on September 10, 2014, which collectively we refer to as our "2013 Form 10-K";

Our quarterly reports on Form 10-Q for the quarters ended March 31, 2014 and June 30, 2014 filed on May 6, 2014 and August 7, 2014, respectively; and

Our current reports on Form 8-K filed on January 28, 2014, March 10, 2014, March 28, 2014, April, 3, 2014 (as amended on June 16, 2014), April, 4, 2014, April 21, 2014, May 2, 2014, May 13, 2014, June 23, 2014, August 4, 2014 and September 3, 2014.

Furthermore, all filings we make with the SEC under Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act after the date of the initial filing of this registration statement and prior to effectiveness of the registration statement (other than portions of these documents deemed to be "furnished" or not deemed to be "filed," including the portions of these documents that are either (1) described in paragraphs (d)(1), (d)(2), (d)(3) or (e)(5) of Item 407 of Regulation S-K promulgated by the SEC or (2) furnished under Item 2.02 or Item 7.01 of a current report on Form 8-K, including any exhibits included with such Items) shall be deemed to be incorporated by reference into this prospectus.

If you make a request for such information in writing or by telephone, we will provide you, without charge, a copy of any or all of the information incorporated by reference in this prospectus. Any such request should be directed to:

NRG Energy, Inc.  
211 Carnegie Center  
Princeton, NJ 08540  
(609) 524-4500  
Attention: General Counsel

You should rely only on the information contained in, or incorporated by reference in, this prospectus. We have not authorized anyone else to provide you with different or additional information. This prospectus does not offer to sell or solicit any offer to buy any notes in any jurisdiction where the offer or sale is unlawful. You should not assume that the information in this prospectus or in any document incorporated by reference is accurate as of any date other than the date on the front cover of the applicable document.

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**SUMMARY**

*This summary highlights selected information appearing elsewhere in this prospectus. This summary is not complete and does not contain all of the information that you should consider before deciding whether to participate in this exchange offer. You should carefully read this summary together with the entire prospectus, including the information set forth in the section entitled "Risk Factors" and the information that is incorporated by reference into this prospectus. See the section entitled "Incorporation by Reference" for a further discussion on incorporation by reference.*

*Unless the context otherwise requires or as otherwise indicated, references in this prospectus to "NRG Energy," "NRG," the "Company," "we," "our" and "us" refer to NRG Energy, Inc. and its consolidated subsidiaries and references to "Issuer" refer to NRG Energy, Inc., exclusive of its subsidiaries.*

**Our Businesses**

We are a competitive power and energy company that produces, sells and delivers energy and energy services in major competitive power markets in the United States while positioning ourselves as a leader in the way residential, industrial and commercial consumers think about and use energy products and services. We own and operate power generation facilities; engage in the trading of energy, capacity and related products; transact in and trade fuel and transportation services; and directly sell energy, services, and innovative, sustainable products to retail customers. We sell retail electricity products and services under the name "NRG" and various brands we own. Finally, we are a leader in the deployment and commercialization of potentially transformative technologies, like electric vehicles, small solar power, or distributed solar, projects and smart meter/home automation technology that collectively have the potential to fundamentally change the nature of the power industry, and the role of the national electric transmission grid and distribution system.

The following table summarizes our global generation portfolio as of June 30, 2014, by operating segment, which includes 97 fossil fuel and nuclear plants, twelve large solar power, or utility scale solar, facilities and 29 wind farms, as well as distributed solar facilities. Also included are two utility scale solar facilities and additional distributed solar facilities currently under construction. All utility scale solar and distributed solar facilities are described in megawatts on an alternating current basis. MW figures provided represent nominal summer net megawatt capacity of power generated as adjusted for our owned or lease interest excluding capacity from inactive/mothballed units:

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Primary Fuel-type	Fossil Fuel, Nuclear, and Renewable (In MW)							
	Gulf Coast	East(a)	West(b)	Renewables(b)	NRG Yield(b)	Total Domestic	Other (International)	Total Global
Natural gas(c)	8,932	7,413	7,617		1,393	25,355	144	25,499
Coal	5,689	11,125				16,814	605	17,419
Oil(d)		5,818			190	6,008		6,008
Nuclear	1,176					1,176		1,176
Wind				2,072	101	2,173		2,173
Utility Scale Solar				802	343	1,145		1,145
Distributed Solar				37	10	47		47
Total generation capacity	15,797	24,356	7,617	2,911	2,037	52,718	749	53,467
Capacity attributable to noncontrolling interest		(40)		(630)	(703)	(1,373)		(1,373)
Total net generation capacity	15,797	24,316	7,617	2,281	1,334	51,345	749	52,094
<b>Under Construction</b>								
Utility Scale Solar				31		31		31
Distributed Solar				6		6		6
Total under construction				37		37		37

- (a) We notified PJM that: (1) we no longer intend to deactivate Portland Units 1 and 2 (401 MW), but instead mothballed those units effective June 1, 2014, with an expected return to service no later than June 1, 2016 using ultra-low sulfur diesel; (2) we no longer intend to place the coal-fired Units 1, 2, 3, and 4 at Shawville generating facility (597 MW) in long term protective layup, but instead will mothball those units beginning on April 16, 2015, with an expected return to service no later than June 1, 2016 using natural gas; (3) we no longer intend to deactivate Chalk Point Units 1 and 2 (667 MW) on May 31, 2017, but instead have changed that deactivation date to May 31, 2018; we no longer intend to deactivate Dickerson Units 1, 2 and 3 (537 MW) on May 31, 2017, but instead have changed that deactivation date to May 31, 2018. We intend to (1) continue operations at Avon Lake Units 7 and 9 and New Castle Units 3, 4, and 5, which are currently operating coal units that had been scheduled for deactivation in April 2015, and to add natural gas capabilities at these units by summer of 2016; (2) convert Units 6, 7 and 8 of the Joliet coal facility to run on natural gas no later than June 2016; and (3) deactivate Unit 3 of the Will County coal facility on April 15, 2015.
- (b) Generation capacity and noncontrolling interest amounts reflect the sale of assets to NRG Yield, Inc. on June 30, 2014, as further described in Note 3, *Business Acquisitions and Dispositions* of our quarterly report on Form 10-Q for the quarter ended June 30, 2014.
- (c) The Gulf Coast operating segment reflects the sale of the 75 MW Bayou Cove Unit 1 on March 3, 2014.
- (d) The NRG Yield operating segment consists of two dual-fuel (natural gas and oil) simple-cycle generation facilities.

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In addition, our thermal assets, which are part of the NRG Yield operating segment, provide steam and chilled water capacity of approximately 1,464 MW thermal equivalent through our district energy business, 118 MW thermal equivalent of which is available under the right-to-use provision of the chilled water service agreement at NRG Energy Center Phoenix, Arizona.

Our generation facilities are primarily located in the United States and comprise generation facilities across the merit order. The sale of capacity and power from baseload and intermediate

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generation facilities accounts for a majority of our generation revenues. In addition, our generation portfolio provides us with opportunities to capture additional revenues by selling power during periods of peak demand, offering capacity or similar products, and providing ancillary services to support system reliability.

Our retail business provides energy and related services to residential, commercial and institutional customers primarily located in Texas and selected Northeast markets. Products and services range from system power to home services, to bundled products which combine system power with protection products, energy efficiency and renewable energy solutions. Based on metered locations, as of June 30, 2014, our retail business served almost three million residential, small business, commercial and industrial customers.

Our investment in, and development of, new technologies is focused on identifying significant commercial opportunities and creating a comparative advantage for us. Our development and investment initiatives are focused on distributed solar projects, solar thermal, solar photovoltaic and wind and also include other low-or no-green-house-gas emitting energy generating sources, such as the fueling infrastructure for electric vehicle ecosystems.

**Our Business Strategy**

Our business strategy is to maximize stockholder value through the production and sale of safe, reliable and affordable power to our customers in the markets we serve, while aggressively positioning our organization to meet the market's increasing demand for sustainable and low carbon energy solutions individualized for the benefit of the end use energy consumer. This strategy is designed to enhance our core business of competitive power generation and mitigate the risk of declining power prices while continuing our commitment to safety for our employees, customers and partners.

We believe that the U.S. energy industry is going to be increasingly impacted by the long-term societal trend towards sustainability, which is both generational and irreversible. Moreover, we further believe the information technology driven revolution, which has enabled greater and easier personal choice in other sectors of the consumer economy, will do the same in the U.S. energy sector over the years to come. Finally, we believe that the aging transmission and distribution infrastructure of the national grid is becoming increasingly inadequate in the face of the more extreme weather demands of the 21st century. As a result, energy consumers are expected to have increasing personal control over whom they buy their energy from, how that energy is generated and used (including their ability to self-generate from their own primarily sustainable energy resources) and what environmental impact individual choices will have.

To address these trends and effectuate our strategy, we remain focused on: (i) excellence in operating performance of our existing assets; (ii) serving the energy needs of end-use residential, commercial and industrial customers in competitive markets through multiple brands and channels with a variety of retail energy products and services differentiated by innovative features, premium service, sustainability, and loyalty/affinity programs; (iii) investing in, and deploying, alternative energy technologies both in our wholesale portfolio through our wind and solar portfolio and, particularly, in and around our retail business and its customers; (iv) repowering our power generation assets at premium sites; (v) optimal hedging of generation assets and retail load operations; (vi) engaging in a proactive capital allocation plan focused on achieving the regular return of and on stockholder capital within the dictates of prudent balance sheet management; and (vii) pursuing selective acquisitions, joint ventures, divestitures and investments.

In addition, our subsidiary, NRG Yield, Inc., is focused on enhancing value for its stockholders by: (i) providing investors with a more competitive source of equity capital that would accelerate our long-term growth and acquisition strategy and optimize our capital structure; and (ii) highlighting the reduced market exposure associated with the contracted conventional and renewable generation and

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thermal infrastructure assets that has traditionally been unrecognized when combined with our merchant portfolio.

**Summary of Risk Factors**

We are subject to a variety of risks related to our competitive position and business strategies. Some of the more significant challenges and risks include those associated with the operation of our power generation plants, volatility in power prices and fuel costs, our leveraged capital structure and extensive governmental regulation. See "Risk Factors" and the section entitled "Risk Factors Related to NRG Energy, Inc." of our 2013 Form 10-K for a discussion of the factors you should consider before deciding to participate in this exchange offer.

**Corporate Information**

We were incorporated as a Delaware corporation on May 29, 1992. Our common stock is listed on the New York Stock Exchange under the symbol "NRG." Our headquarters and principal executive offices are located at 211 Carnegie Center, Princeton, New Jersey 08540. Our telephone number is (609) 524-4500. Our website is located at [www.nrg.com](http://www.nrg.com). The information on, or linked to, our website is not a part of this prospectus and is not incorporated in this prospectus by reference.

You can get more information regarding our business by reading our 2013 Form 10-K, our quarterly report on Form 10-Q for the quarter ended June 30, 2014 and the other reports we file with the SEC. See "Incorporation by Reference."

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**SUMMARY OF THE EXCHANGE OFFER**

On January 27, 2014, we sold, through a private placement exempt from the registration requirements of the Securities Act, \$1,100,000,000 of our 6.25% Senior Notes due 2022, which are eligible to be exchanged for Exchange Notes. We refer to these notes as "Old Notes" in this prospectus.

Simultaneously with the private placement, we entered into a registration rights agreement with the initial purchasers of the Old Notes (the "Registration Rights Agreement"). Under the Registration Rights Agreement, we are required to use commercially reasonable efforts to register with the SEC Exchange Notes having substantially identical terms as the Old Notes (except for the provisions relating to the transfer restrictions and payment of additional interest) as part of an offer to exchange freely tradable exchange notes for the notes, and use commercially reasonable efforts to consummate the exchange offer within 300 days after the issue date of the Old Notes. If required under certain circumstances, NRG and the guarantors will file a shelf registration statement with the SEC covering resales of the notes.

We refer to the notes to be registered under this exchange offer registration statement as "Exchange Notes" and collectively with the Old Notes, we refer to them as the "notes" in this prospectus. You may exchange your Old Notes for the applicable Exchange Notes in this exchange offer. You should read the discussion under the headings " Summary of Terms of Exchange Notes," "Exchange Offer" and "Description of the Notes" for further information regarding the Exchange Notes.

**Exchange Notes offered  
Exchange offer**

\$1,100,000,000 aggregate principal amount of 6.25% Senior Notes due 2022.

We are offering to exchange the Old Notes for a like principal amount at maturity of the Exchange Notes. Old Notes may be exchanged only in minimum principal amounts of \$2,000 and integral multiples of \$1,000 in excess thereof. The exchange offer is being made pursuant to the Registration Rights Agreement which grants the initial purchasers and any subsequent holders of the Old Notes certain exchange and registration rights. This exchange offer is intended to satisfy those exchange and registration rights with respect to the Old Notes. After the exchange offer is complete, you will no longer be entitled to any exchange or registration rights with respect to your Old Notes.

**Expiration date; Withdrawal of tender**

The exchange offer will expire at 12:00 midnight, New York City time, on \_\_\_\_\_, 2014, or a later time if we choose to extend this exchange offer in our sole and absolute discretion. You may withdraw your tender of Old Notes at any time prior to 12:00 midnight, New York City time, on the expiration date. All outstanding Old Notes that are validly tendered and not validly withdrawn will be exchanged. We will issue the Exchange Notes promptly after the expiration of the exchange offer. Any Old Notes not accepted by us for exchange for any reason will be returned to you at our expense promptly after the expiration or termination of the exchange offer.

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**Resales**

We believe that you can offer for resale, resell and otherwise transfer the Exchange Notes without complying with the registration and prospectus delivery requirements of the Securities Act so long as:

you acquire the Exchange Notes in the ordinary course of business;

you are not participating, do not intend to participate, and have no arrangement or understanding with any person to participate, in the distribution of the Exchange Notes;

you are not an affiliate of ours; and

you are not a broker-dealer.

If any of these conditions is not satisfied and you transfer any Exchange Notes without delivering a proper prospectus or without qualifying for a registration exemption, you may incur liability under the Securities Act. We do not assume, or indemnify you against, any such liability.

**Broker-Dealer**

Each broker-dealer acquiring Exchange Notes issued for its own account in exchange for Old Notes, which it acquired through market-making activities or other trading activities, must acknowledge that it will deliver a proper prospectus when any Exchange Notes issued in the exchange offer are transferred. A broker-dealer may use this prospectus for an offer to resell, a resale or other retransfer of the Exchange Notes issued in the exchange offer. See "Plan of Distribution."

**Conditions to the exchange offer**

Our obligation to accept for exchange, or to issue the Exchange Notes in exchange for, any Old Notes is subject to certain customary conditions, including our determination that the exchange offer does not violate any law, statute, rule, regulation or interpretation by the Staff of the SEC or any regulatory authority or other foreign, federal, state or local government agency or court of competent jurisdiction, some of which may be waived by us. We currently expect that each of the conditions will be satisfied and that no waivers will be necessary. See "Exchange Offer Conditions to the exchange offer."

**Procedures for tendering Old Notes Held in the Form of Book-Entry interests**

The Old Notes were issued as global securities and were deposited upon issuance with Law Debenture Trust Company of New York, which issued uncertificated depositary interests in those outstanding Old Notes, which represent a 100% interest in those Old Notes, to The Depository Trust Company ("DTC").



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Beneficial interests in the outstanding Old Notes, which are held by direct or indirect participants in DTC, are shown on, and transfers of the Old Notes can only be made through, records maintained in book-entry form by DTC.

You may tender your outstanding Old Notes by instructing your broker or bank where you keep the Old Notes to tender them for you. In some cases you may be asked to submit the letter of transmittal that may accompany this prospectus. By tendering your Old Notes you will be deemed to have acknowledged and agreed to be bound by the terms set forth under "Exchange Offer." Your outstanding Old Notes must be tendered in minimum denominations of \$2,000 and integral multiples of \$1,000 in excess thereof.

In order for your tender to be considered valid, the exchange agent must receive a confirmation of book-entry transfer of your outstanding Old Notes into the exchange agent's account at DTC, under the procedure described in this prospectus under the heading "Exchange Offer," on or before 12:00 midnight, New York City time, on the expiration date of the exchange offer.

**Special procedures for beneficial owners**

If you are the beneficial owner of book-entry interests and your name does not appear on a security position listing of DTC as the holder of the book-entry interests or if you are a beneficial owner of Old Notes that are registered in the name of a broker, dealer, commercial bank, trust company or other nominee and you wish to tender the book-entry interest or Old Notes in the exchange offer, you should contact the person in whose name your book-entry interests or Old Notes are registered promptly and instruct that person to tender on your behalf.

**United States federal income tax considerations**

The exchange offer should not result in any income, gain or loss to the holders of Old Notes or to us for United States federal income tax purposes. See "Certain Federal Income Tax Consequences."

**Use of proceeds**

We will not receive any proceeds from the issuance of the Exchange Notes in the exchange offer.

**Exchange agent**

Law Debenture Trust Company of New York is serving as the exchange agent for the exchange offer.

**Shelf registration statement**

In limited circumstances, holders of Old Notes may require us to register their Old Notes under a shelf registration statement.

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**CONSEQUENCES OF NOT EXCHANGING OLD NOTES**

If you do not exchange your Old Notes in the exchange offer, your Old Notes will continue to be subject to the restrictions on transfer currently applicable to the Old Notes. In general, you may offer or sell your Old Notes only:

if they are registered under the Securities Act and applicable state securities laws;

if they are offered or sold under an exemption from registration under the Securities Act and applicable state securities laws;  
or

if they are offered or sold in a transaction not subject to the Securities Act and applicable state securities laws.

We do not currently intend to register the Old Notes under the Securities Act. Under some circumstances, however, holders of the Old Notes, including holders who are not permitted to participate in the exchange offer or who may not freely resell Exchange Notes received in the exchange offer, may require us to file, and to cause to become effective, a shelf registration statement covering resales of notes by these holders. For more information regarding the consequences of not tendering your Old Notes and our obligation to file a shelf registration statement, see "Exchange Offer Consequences of failure to exchange."

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**SUMMARY OF TERMS OF EXCHANGE NOTES**

*The summary below describes the principal terms of the Exchange Notes, the guarantees and the related indenture. Certain of the terms and conditions described below are subject to important limitations and exceptions. The "Description of the Notes" section of this prospectus contains more detailed descriptions of the terms and conditions of the Exchange Notes and the related indenture.*

<b>Issuer</b>	NRG Energy, Inc.
<b>Securities offered</b>	\$1,100 million in aggregate principal amount of 6.25% Senior Notes due 2022, which will be registered under the Securities Act. The Exchange Notes will evidence the same debt as the Old Notes.
<b>Maturity date</b>	The Exchange Notes will mature on July 15, 2022.
<b>Interest rate</b>	The Exchange Notes will accrue interest at the rate of 6.25% per annum.
<b>Interest payment dates</b>	<p>Interest on the Exchange Notes will be payable on January 15 and July 15. No interest will be paid on either the Exchange Notes or the Old Notes at the time of exchange. The Exchange Notes will accrue interest from and including the last interest payment date on which interest has been paid on the Old Notes and, if no interest has been paid, the Exchange Notes will accrue interest since the issue date of the Old Notes.</p> <p>Accordingly, the holders of Old Notes that are accepted for exchange will not receive accrued but unpaid interest on such Old Notes at the time of tender. Rather, that interest will be payable on the Exchange Notes delivered in exchange for the Old Notes on the first interest payment date following the expiration date of the exchange offer.</p>
<b>Ranking</b>	<p>The Exchange Notes will:</p> <p>be senior obligations of NRG and will rank equally in right of payment with all existing and future senior indebtedness of NRG;</p> <p>be senior in right of payment to any future subordinated indebtedness of NRG;</p> <p>be effectively subordinated to any indebtedness of NRG secured by assets of NRG to the extent of the value of the assets securing such indebtedness;</p> <p>be structurally subordinated to all indebtedness and other liabilities of NRG's subsidiaries that do not guarantee the notes; and</p> <p>be guaranteed as described under " Guarantees."</p>
<b>Guarantees</b>	The Exchange Notes will be guaranteed on a full and unconditional and joint and several basis by each of our current and future restricted subsidiaries, excluding certain foreign, project and immaterial subsidiaries. Each guarantee will:

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be a senior obligation of that guarantor and rank equally in right of payment with all existing and future senior indebtedness of that guarantor;

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be senior in right of payment to all existing and future subordinated indebtedness of that guarantor;  
and

be effectively subordinated to any secured indebtedness of that guarantor to the extent of the value of the assets of the guarantor that secures such indebtedness.

Our operations are largely conducted through our subsidiaries and, therefore, we will depend on the cash flow of our subsidiaries to meet our obligations under the Exchange Notes. Not all of our subsidiaries will guarantee the notes.

The Exchange Notes will be structurally subordinated in right of payment to all indebtedness and other liabilities and commitments of our non-guarantor subsidiaries. For the six months ended June 30, 2014, the guarantors accounted for approximately 67% of our revenues from wholly owned operations. The guarantors held approximately 59% of our subsidiaries' consolidated assets as of June 30, 2014. As of June 30, 2014, our non-guarantor subsidiaries had approximately \$10,102 million in aggregate principal amount of non-current liabilities and outstanding trade payables of approximately \$325 million. See "Risk Factors Risks related to the notes We may not have access to the cash flow and other assets of our subsidiaries that may be needed to make payment on the notes."

**Optional redemption**

We may redeem some or all of the Exchange Notes at any time prior to July 15, 2018 at a price equal to 100% of the principal amount of the notes redeemed plus a "make-whole" premium and accrued and unpaid interest.

Prior to July 15, 2017, we may redeem up to 35% of the aggregate principal amount of the notes with an amount equal to the net cash proceeds of certain equity offerings at the redemption price listed in the "Description of the Notes Optional redemption" section of this prospectus, plus accrued and unpaid interest; provided at least 65% of the aggregate principal amount of the notes remain outstanding after the redemption.

On or after July 15, 2018, we may redeem some or all of the Exchange Notes at the redemption prices listed in the "Description of the Notes Optional redemption" section of this prospectus, plus accrued and unpaid interest.

**Change of control offer**

If a change of control triggering event occurs, subject to certain conditions, we must offer to repurchase the Exchange Notes at a price equal to 101% of the principal amount of the notes, plus accrued and unpaid interest to the date of repurchase. See "Description of the Notes Repurchase at the option of holders Change of control triggering event."

**Asset sale offer**

If we sell assets under certain circumstances, we must offer to repurchase the Exchange Notes at a repurchase price equal to 100% of the principal amount of the Exchange Notes repurchased, plus accrued and unpaid interest, if any, to the applicable repurchase date. See "Description of the Notes Repurchase at the option of holders Asset sales."

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**Certain covenants**

The indenture governing the Exchange Notes contains covenants limiting, among other things, NRG's ability and the ability of its restricted subsidiaries to:

incur additional debt or issue some types of preferred shares;

declare or pay dividends, redeem stock or make other distributions to stockholders;

create liens;

make certain restricted investments;

enter into transactions with affiliates;

sell or transfer assets; and

consolidate or merge.

These covenants are subject to a number of important qualifications and limitations. See "Description of the Notes Certain covenants."

**Events of default**

For a discussion of events that will permit acceleration of the payment of the principal of and accrued interest on the Exchange Notes, see "Description of the Notes Events of default and remedies."

**No prior market**

The Exchange Notes will be new securities for which there is currently no market. We cannot assure you as to the liquidity of markets that may develop for the Exchange Notes, your ability to sell the Exchange Notes or the price at which you would be able to sell the Exchange Notes. See "Risk Factors Risks related to the notes Your ability to transfer the notes may be limited by the absence of an active trading market, and there is no assurance that any active market will develop for the notes."

**Listing**

We do not intend to list the Exchange Notes on any securities exchange.

**Use of proceeds**

We will not receive any proceeds from the issuance of the Exchange Notes.

**Form and denomination**

The Exchange Notes will be delivered in fully-registered form. The Exchange Notes will be represented by one or more global notes, deposited with the trustee as a custodian for DTC and registered in the name of Cede & Co., DTC's nominee. Beneficial interests in the global notes will be shown on, and any transfers will be effective only through, records maintained by DTC and its participants. The Exchange Notes will be issued in denominations of \$2,000 and integral multiples of \$1,000.

**Governing law**

The Exchange Notes and the indenture governing the Exchange Notes will be governed by, and construed in accordance with, the laws of the State of New York.

**Trustee**

Law Debenture Trust Company of New York.



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**RISK FACTORS**

*You should carefully consider the risk factors set forth below and the risk factors incorporated into this prospectus by reference to our 2013 Form 10-K, as well as the other information contained in and incorporated by reference into this prospectus before deciding to participate in this exchange offer. The selected risks described below and the risks that are incorporated into this prospectus by reference to our 2013 Form 10-K are not our only risks. Additional risks and uncertainties not currently known to us or those we currently view to be immaterial also may materially and adversely affect our business, financial condition or results of operations. Any of the following risks or any of the risks described in our 2013 Form 10-K could materially and adversely affect our business, financial condition, operating results or cash flow. In such a case, the trading price of the notes could decline, or we may not be able to make payments of interest and principal on the notes, and you may lose all or part of your original investment.*

**Risks related to the notes**

***Despite current indebtedness levels, we may still be able to incur substantially more debt. This could increase the risks associated with our already substantial leverage.***

We may be able to incur substantial additional indebtedness in the future. The terms of the indenture governing the notes and other indentures relating to outstanding indebtedness restrict our ability to do so, but we retain the ability to incur material amounts of additional indebtedness. If new indebtedness is added to our current indebtedness levels, the related risks that we now face could increase. See "Description of Certain Other Indebtedness and Preferred Stock."

***To service our indebtedness, we will require a significant amount of cash. Our ability to generate cash depends on many factors beyond our control.***

Our ability to make payments on and to refinance our indebtedness, including these notes, and to fund planned capital expenditures depends on our ability to generate cash in the future. This, to a significant extent, is subject to general economic, financial, competitive, legislative, tax, regulatory, environmental and other factors that are beyond our control.

Based on our current level of operations and anticipated cost savings and operating improvements, we believe our cash flow from operations, available cash and available borrowings under our Senior Credit Facility (as defined herein), will be adequate to meet our future liquidity needs for at least the next 12 months.

We cannot assure you, however, that our business will generate sufficient cash flow from operations, that currently anticipated cost savings and operating improvements will be realized on schedule or at all or that future borrowings will be available to us under our Senior Credit Facility in an amount sufficient to enable us to pay our indebtedness, including the notes, or to fund our other liquidity needs. We may need to refinance all or a portion of our indebtedness, including the notes on or before maturity. We cannot assure you that we will be able to refinance any of our indebtedness on commercially reasonable terms or at all.

***In the event of a bankruptcy or insolvency, holders of our secured indebtedness and other secured obligations will have a prior secured claim to any collateral securing such indebtedness or other obligations.***

Holders of our secured indebtedness and other secured obligations will have a prior secured claim to any collateral securing such indebtedness or other obligations. Holders of our secured indebtedness and the secured indebtedness of the guarantors will have claims that are prior to your claims as holders of the notes to the extent of the value of the assets securing that other indebtedness. Our Senior Credit Facility is secured by first priority liens on certain of our assets and the assets of our subsidiary guarantors. We have granted first and second priority liens to secure our obligations under certain



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long-term power and gas hedges as well as interest rate hedges. In the event of any distribution or payment of our assets in any foreclosure, dissolution, winding-up, liquidation, reorganization, or other bankruptcy proceeding, holders of secured indebtedness will have prior claim to those of our assets that constitute their collateral. Holders of the notes will participate ratably with all holders of our unsecured indebtedness that is deemed to be of the same class as the notes, and potentially with all our other general creditors, based upon the respective amounts owed to each holder or creditor, in our remaining assets. In any of the foregoing events, we cannot assure you that there will be sufficient assets to pay amounts due on the notes. As a result, holders of notes may receive less, ratably, than holders of secured indebtedness.

***Your right to receive payments on these notes could be adversely affected if any of our non-guarantor subsidiaries declare bankruptcy, liquidate or reorganize.***

Some, but not all, of our subsidiaries will guarantee the notes. In the event of a bankruptcy, liquidation or reorganization of any of our non-guarantor subsidiaries, holders of their indebtedness and their trade creditors will generally be entitled to payment of their claims from the assets of those subsidiaries before any assets are made available for distribution to us. As of June 30, 2014, our non-guarantor subsidiaries had approximately \$10,102 million in aggregate principal amount of non-current liabilities and outstanding trade payables of approximately \$325 million. In addition, the indenture governing the notes permits us, subject to certain covenant limitations, to provide credit support for the obligations of the non-guarantor subsidiaries and such credit support may be effectively senior to our obligations under the notes. Further, the indenture governing the notes allows us to transfer assets, including certain specified facilities, to the non-guarantor subsidiaries.

***We may not have access to the cash flow and other assets of our subsidiaries that may be needed to make payment on the notes.***

Much of our business is conducted through our subsidiaries. Although certain of our subsidiaries will guarantee the notes, some of our subsidiaries will not become guarantors and thus will not be obligated to make funds available to us for payment on the notes. Our ability to make payments on the notes will be dependent on the earnings and the distribution of funds from subsidiaries, some of which are non-guarantors. Our subsidiaries are permitted under the terms of the indenture to incur additional indebtedness that may restrict or prohibit the making of distributions, the payment of dividends or the making of loans by such subsidiaries to us. In addition, certain debt instruments of certain of the subsidiaries, which are non-guarantor subsidiaries restrict their ability to pay dividends, which limit their ability to make funds available to us. We cannot assure you that the agreements governing the current and future indebtedness of our subsidiaries will permit our subsidiaries to provide us with sufficient dividends, distributions or loans to fund payments on the notes when due. Furthermore, certain of our subsidiaries and affiliates are already subject to project financing. Such entities will not guarantee our obligations on the notes. The debt agreements of these subsidiaries and project affiliates generally restrict their ability to pay dividends, make distributions or otherwise transfer funds to us.

***We may not have the ability to raise the funds necessary to finance the change of control offer required by the indenture governing the notes.***

Upon the occurrence of certain specific kinds of change of control events, we will be required to offer to repurchase all outstanding notes at 101% of the principal amount thereof plus accrued and unpaid interest, if any, to the date of repurchase. However, it is possible that we will not have sufficient funds at the time of a change of control to make the required repurchase of notes and/or that restrictions in our Senior Credit Facility or other senior indebtedness will not allow such repurchases. In addition, certain important corporate events, such as leveraged recapitalizations that would increase

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the level of our indebtedness, would not constitute a "Change of Control" under the indenture. See "Description of the Notes Repurchase at the option of holders Change of control triggering event."

***Federal and state statutes allow courts, under specific circumstances, to void guarantees and require note holders to return payments received from guarantors.***

Under the federal bankruptcy law and comparable provisions of state fraudulent transfer laws, a guarantee can be voided, or claims in respect of a guarantee can be subordinated to all other debts of that guarantor if, among other things, the guarantor, at the time it incurred the indebtedness evidenced by its guarantee:

received less than reasonably equivalent value or fair consideration for the incurrence of such guarantee; and

was insolvent or rendered insolvent by reason of such incurrence; or

was engaged in a business or transaction for which the guarantor's remaining assets constituted unreasonably small capital;  
or

intended to incur, or believed that it would incur, debts beyond its ability to pay such debts as they mature.

In addition, any payment by that guarantor pursuant to its guarantee can be voided and required to be returned to the guarantor, or to a fund for the benefit of the creditors of the guarantor.

The measures of insolvency for purposes of these fraudulent transfer laws will vary depending upon the law applied in any proceeding to determine whether a fraudulent transfer has occurred. Generally, however, a guarantor will be considered insolvent if:

the sum of its debts, including contingent liabilities, are greater than the fair saleable value of all of its assets; or

if the present fair saleable value of its assets are less than the amount that would be required to pay its probable liability on its existing debts, including contingent liabilities, as they become absolute and mature; or

it cannot pay its debts as they become due.

On the basis of historical financial information, recent operating history and other factors, we believe that each guarantor, after giving effect to its guarantee of the notes, will not be insolvent, will not have unreasonably small capital for the business in which it is engaged and will not have incurred debts beyond its ability to pay such debts as they mature. We cannot assure you, however, as to what standard a court would apply in making these determinations or that a court would agree with our conclusions in this regard.

***Your ability to transfer the notes may be limited by the absence of an active trading market, and there is no assurance that any active trading market will develop for the notes.***

The Exchange Notes will be registered under the Securities Act, but will constitute a new issue of securities for which there is no established trading market. We do not intend to have the notes listed on a national securities exchange or included in any automated quotation system.

The liquidity of any market for the notes will depend upon the number of holders of the notes, our performance, the market for similar securities, the interest in securities dealers making a market in the notes and other factors. Therefore, we cannot assure you that an active market for the notes or exchange notes will develop or, if developed, that it will continue. If an active market does not develop or is not maintained, the price and liquidity of the notes will be adversely affected.



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Historically, the market for non investment-grade debt has been subject to disruptions that have caused substantial volatility in the prices of securities similar to the notes. We cannot assure you that the market, if any, for the notes will be free from similar disruptions or that any such disruptions may not adversely affect the prices at which you may sell your notes.

We offered the Old Notes in reliance upon an exemption from registration under the Securities Act and applicable state securities laws. Therefore, the Old Notes may be transferred or resold only in a transaction registered under or exempt from the Securities Act and applicable state securities laws. We are conducting the exchange offer pursuant to an effective registration statement, whereby we are offering to exchange the Old Notes for nearly identical notes that you will be able to trade without registration under the Securities Act provided you are not one of our affiliates. We cannot assure you that this exchange offer will be conducted in a timely fashion. Moreover, we cannot assure you that an active or liquid trading market for the Exchange Notes will develop. See "Exchange Offer."

**Risks related to the exchange offer**

***Holders of Old Notes who fail to exchange their Old Notes in the exchange offer will continue to be subject to restrictions on transfer.***

If you do not exchange your Old Notes for Exchange Notes in the exchange offer, you will continue to be subject to the restrictions on transfer applicable to the Old Notes. The restrictions on transfer of your Old Notes arise because we issued the Old Notes under exemptions from, or in transactions not subject to, the registration requirements of the Securities Act and applicable state securities laws. In general, you may only offer or sell the Old Notes if they are registered under the Securities Act and applicable state securities laws, or offered and sold under an exemption from these requirements. We do not plan to register the Old Notes under the Securities Act. For further information regarding the consequences of tendering your Old Notes in the exchange offer, see the discussion under the caption "Exchange Offer Consequences of failure to exchange."

***You must comply with the exchange offer procedures in order to receive new, freely tradable Exchange Notes.***

Delivery of Exchange Notes in exchange for Old Notes tendered and accepted for exchange pursuant to the exchange offer will be made only after timely receipt by the exchange agent of book-entry transfer of Old Notes into the exchange agent's account at DTC, as depository, including an Agent's Message (as defined herein). We are not required to notify you of defects or irregularities in tenders of Old Notes for exchange. Exchange Notes that are not tendered or that are tendered but we do not accept for exchange will, following consummation of the exchange offer, continue to be subject to the existing transfer restrictions under the Securities Act and, upon consummation of the exchange offer, certain registration and other rights under the Registration Rights Agreement will terminate. See "Exchange Offer Procedures for tendering Old Notes through brokers and banks" and "Exchange Offer Consequences of failure to exchange."

***Some holders who exchange their Old Notes may be deemed to be underwriters, and these holders will be required to comply with the registration and prospectus delivery requirements in connection with any resale transaction.***

If you exchange your Old Notes in the exchange offer for the purpose of participating in a distribution of the Exchange Notes, you may be deemed to have received restricted securities and, if so, will be required to comply with the registration and prospectus delivery requirements of the Securities Act in connection with any resale transaction.

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**FORWARD-LOOKING STATEMENTS**

This prospectus, including the information incorporated into this prospectus by reference, contains "forward-looking statements," which involve risks and uncertainties. All statements, other than statements of historical facts, that are included in or incorporated by reference into this prospectus, or made in presentations, in response to questions or otherwise, that address activities, events or developments that we expect or anticipate to occur in the future, including such matters as projections, capital allocation, future capital expenditures, business strategy, competitive strengths, goals, future acquisitions or dispositions, development or operation of power generation assets, market and industry developments and the growth of our business and operations (often, but not always, through the use of words or phrases such as "will likely result," "are expected to," "will continue," "is anticipated," "estimated," "projection," "target," "goal," "objective" and "outlook"), are forward-looking statements. Although we believe that in making any such forward-looking statement our expectations are based on reasonable assumptions, any such forward-looking statement involves uncertainties and is qualified in its entirety by reference to the discussion of risk factors under "Risk Factors" contained elsewhere in this prospectus and in the section captioned "Risk Factors Related to NRG Energy, Inc." of our 2013 Form 10-K, which is incorporated into this prospectus by reference, and the following important factors, among others, that could cause our actual results to differ materially from those projected in such forward-looking statements:

General economic conditions, changes in the wholesale power markets and fluctuations in the cost of fuel;

Volatile power supply costs and demand for power;

Hazards customary to the power production industry and power generation operations such as fuel and electricity price volatility, unusual weather conditions, catastrophic weather-related or other damage to facilities, unscheduled generation outages, maintenance or repairs, unanticipated changes to fuel supply costs or availability due to higher demand, shortages, transportation problems or other developments, environmental incidents, or electric transmission or gas pipeline system constraints and the possibility that we may not have adequate insurance to cover losses as a result of such hazards;

The effectiveness of our risk management policies and procedures, and the ability of our counterparties to satisfy their financial commitments;

Counterparties' collateral demands and other factors affecting our liquidity position and financial condition;

Our ability to operate our businesses efficiently, manage capital expenditures and costs tightly, and generate earnings and cash flows from our asset-based businesses in relation to our debt and other obligations;

Our ability to enter into contracts to sell power and procure fuel on acceptable terms and prices;

The liquidity and competitiveness of wholesale markets for energy commodities;

Government regulation, including compliance with regulatory requirements and changes in market rules, rates, tariffs and environmental laws and increased regulation of carbon dioxide and other greenhouse gas emissions;

Price mitigation strategies and other market structures employed by independent system operators or regional transmission organizations that result in a failure to adequately compensate our generation units for all of their costs;

Our ability to borrow additional funds and access capital markets, as well as our substantial indebtedness and the possibility that we may incur additional indebtedness going forward;



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Our ability to receive federal loan guarantees or cash grants to support development projects;

Operating and financial restrictions placed on us and our subsidiaries that are contained in the indentures governing our outstanding notes, in our Senior Credit Facility, and in debt and other agreements of certain of our subsidiaries and project affiliates generally;

Our ability to implement our strategy of developing and building new power generation facilities, including new solar projects;

Our ability to implement our econrg strategy of finding ways to address environmental challenges while taking advantage of business opportunities;

Our ability to implement our *FORNRG* strategy to increase cash from operations through operational and commercial initiatives, corporate efficiencies, asset strategy, and a range of other programs throughout our company to reduce costs or generate revenues;

Our ability to achieve our strategy of regularly returning capital to shareholders;

Our ability to maintain retail market share;

Our ability to successfully evaluate investments in new business and growth initiatives;

Our ability to successfully integrate, realize cost savings and manage any acquired businesses; and

Our ability to develop and maintain successful partnering relationships.

Forward-looking statements speak only as of the date on which they were made, and except as may be required by applicable law, we undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which it is made or to reflect the occurrence of unanticipated events. New factors emerge from time to time, and it is not possible for us to predict all of them; nor can we assess the impact of each such factor or the extent to which any factor, or combination of factors, may cause results to differ materially from those contained in any forward-looking statement. You should not unduly rely on such forward-looking statements.

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**EXCHANGE OFFER**

**Purpose of the exchange offer**

The exchange offer is designed to provide holders of Old Notes with an opportunity to acquire Exchange Notes which, unlike the Old Notes, will be freely transferable at all times, subject to any restrictions on transfer imposed by state "blue sky" laws and provided that the holder is not our affiliate within the meaning of the Securities Act and represents that the Exchange Notes are being acquired in the ordinary course of the holder's business and the holder is not engaged in, and does not intend to engage in, a distribution of the Exchange Notes.

The Old Notes were originally issued and sold on January 27, 2014, to the initial purchasers, pursuant to the purchase agreement dated January 10, 2014. The Old Notes were issued and sold in a transaction not registered under the Securities Act in reliance upon the exemption provided by Section 4(2) of the Securities Act. The concurrent resale of the Old Notes by the initial purchasers to investors was done in reliance upon the exemptions provided by Rule 144A and Regulation S promulgated under the Securities Act. The Old Notes may not be reoffered, resold or transferred other than (i) to us or our subsidiaries, (ii) to a qualified institutional buyer in compliance with Rule 144A promulgated under the Securities Act, (iii) outside the United States to a non-U.S. person in a transaction complying with Rule 903 or Rule 904 of Regulation S under the Securities Act, (iv) pursuant to the exemption from registration provided by Rule 144 promulgated under the Securities Act (if available), (v) in accordance with another exemption from the registration requirements of the Securities Act or (vi) pursuant to an effective registration statement under the Securities Act.

In connection with the original issuance and sale of the Old Notes, we entered into the Registration Rights Agreement, pursuant to which we agreed to file with the SEC a registration statement covering the exchange by us of the Exchange Notes for the Old Notes, pursuant to the exchange offer. The Registration Rights Agreement provides that we will file with the SEC an exchange offer registration statement on an appropriate form under the Securities Act and offer to holders of Old Notes who are able to make certain representations the opportunity to exchange their Old Notes for Exchange Notes. Under some circumstances, holders of the Old Notes, including holders who are not permitted to participate in the exchange offer, may require us to file, and to cause to become effective, a shelf registration statement covering resales of Old Notes to these holders.

Under existing interpretations by the Staff of the SEC as set forth in no-action letters issued to third parties in other transactions, the Exchange Notes would, in general, be freely transferable after the exchange offer without further registration under the Securities Act; provided, however, that in the case of broker-dealers participating in the exchange offer, a prospectus meeting the requirements of the Securities Act must be delivered by such broker-dealers in connection with resales of the Exchange Notes. We have agreed to furnish a prospectus meeting the requirements of the Securities Act to any such broker-dealer for use in connection with any resale of any Exchange Notes acquired in the exchange offer. A broker-dealer that delivers such a prospectus to purchasers in connection with such resales will be subject to certain of the civil liability provisions under the Securities Act and will be bound by the provisions of the Registration Rights Agreement (including certain indemnification rights and obligations).

We do not intend to seek our own interpretation regarding the exchange offer, and we cannot assure you that the Staff of the SEC would make a similar determination with respect to the Exchange Notes as it has in other interpretations to third parties.



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**Terms of the exchange offer; period for tendering outstanding Old Notes**

Upon the terms and subject to the conditions set forth in this prospectus, we will accept any and all Old Notes that were acquired pursuant to Rule 144A or Regulation S validly tendered and not withdrawn prior to 12:00 midnight, New York City time, on the expiration date of the exchange offer. We will issue \$1,000 principal amount of Exchange Notes in exchange for each \$1,000 principal amount of Old Notes accepted in the exchange offer. We will issue the Exchange Notes promptly after expiration of the exchange offer. Holders may tender some or all of their Old Notes pursuant to the exchange offer. However, Old Notes may be tendered only in minimum principal amounts of \$2,000 and integral multiples of \$1,000 in excess thereof.

The form and terms of the Exchange Notes are the same as the form and terms of the outstanding Old Notes except that:

the Exchange Notes will be registered under the Securities Act and will not have legends restricting their transfer; and

the Exchange Notes will not contain the registration rights and liquidated damages provisions contained in the outstanding Old Notes.

The Exchange Notes will evidence the same debt as the Old Notes and will be entitled to the benefits of the indenture governing the Old Notes.

We intend to conduct the exchange offer in accordance with the applicable requirements of the Exchange Act, and the rules and regulations of the SEC.

We will be deemed to have accepted validly tendered Old Notes when, as and if we have given oral (promptly confirmed in writing) or written notice of our acceptance to the exchange agent. The exchange agent will act as agent for the tendering holders for the purpose of receiving the Exchange Notes from us.

If any tendered Old Notes are not accepted for exchange because of an invalid tender or the occurrence of certain specified events set forth in this prospectus, the certificates for any unaccepted Old Notes will be promptly returned, without expense, to the tendering holder.

Holders who tender Old Notes in the exchange offer will not be required to pay brokerage commissions or fees or transfer taxes with respect to the exchange of Old Notes pursuant to the exchange offer. We will pay all charges and expenses, other than transfer taxes in certain circumstances, in connection with the exchange offer. See " Fees and expenses" and " Transfer taxes" below.

The exchange offer will remain open for at least 20 full business days. The term "expiration date" will mean 12:00 midnight, New York City time, on \_\_\_\_\_, 2014, unless we extend the exchange offer, in which case the term "expiration date" will mean the latest date and time to which the exchange offer is extended.

To extend the exchange offer, prior to 9:00 a.m., New York City time, on the next business day after the previously scheduled expiration date, we will:

notify the exchange agent of any extension by oral notice (promptly confirmed in writing) or written notice, and

mail to the registered holders an announcement of any extension, and issue a notice by press release or other public announcement before such expiration date.

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We reserve the right:

if any of the conditions below under the heading "Conditions to the Exchange Offer" shall have not been satisfied, to delay accepting any Old Notes in connection with the extension of the exchange offer, to extend the exchange offer, or to terminate the exchange offer, or

to amend the terms of the exchange offer in any manner, provided however, that if we amend the exchange offer to make a material change, including the waiver of a material condition, we will extend the exchange offer, if necessary, to keep the exchange offer open for at least five business days after such amendment or waiver; provided further, that if we amend the exchange offer to change the percentage of Notes being exchanged or the consideration being offered, we will extend the exchange offer, if necessary, to keep the exchange offer open for at least ten business days after such amendment or waiver.

Any delay in acceptance, extension, termination or amendment will be followed promptly by oral or written notice by us to the registered holders.

**Deemed representations**

To participate in the exchange offer, we require that you represent to us, among other things, that:

you are acquiring Exchange Notes in exchange for your Old Notes in the ordinary course of business;

you are not engaging in and do not intend to engage in (nor have you entered into any arrangement or understanding with any person to participate in) a distribution of the Exchange Notes within the meaning of the federal securities laws;

you are not our "affiliate" as defined under Rule 405 of the Securities Act;

you are not a broker-dealer tendering Old Notes directly acquired from us for your own account;

if you are a broker-dealer that will receive Exchange Notes for your own account in exchange for Old Notes:

the Old Notes to be exchanged for Exchange Notes were acquired by you as a result of market-making activities or other trading activities;

you have not entered into any arrangement or understanding with the Issuer or an affiliate of the Issuer to distribute the Exchange Notes; and

you will deliver a prospectus meeting the requirements of the Securities Act in connection with any resale of such Exchange Notes by so representing and by delivering a prospectus, a broker-dealer will not be deemed to admit that it is an "underwriter" within the meaning of the Securities Act; and

you are not acting on behalf of any person or entity that could not truthfully make those representations.

**BY TENDERING YOUR OLD NOTES YOU ARE DEEMED TO HAVE MADE THESE REPRESENTATIONS.**

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Broker-dealers who cannot make the representations above cannot use this exchange offer prospectus in connection with resales of the Exchange Notes issued in the exchange offer.

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**Resale of Exchange Notes**

Based on interpretations of the SEC Staff set forth in no-action letters issued to unrelated third parties, we believe that Exchange Notes issued in the exchange offer in exchange for Old Notes may be offered for resale, resold and otherwise transferred by any Exchange Note holder without compliance with the registration and prospectus delivery provisions of the Securities Act, if:

such holder is not an "affiliate" of ours within the meaning of Rule 405 under the Securities Act;

such Exchange Notes are acquired in the ordinary course of the holder's business; and

the holder does not intend to participate in the distribution of such Exchange Notes.

Any holder who tenders in the exchange offer with the intention of participating in any manner in a distribution of the Exchange Notes, who is an affiliate of ours or who is a broker or dealer who acquired Old Notes directly from us:

cannot rely on the position of the Staff of the SEC set forth in "Exxon Capital Holdings Corporation" or similar interpretive letters; and

must comply with the registration and prospectus delivery requirements of the Securities Act in connection with a secondary resale transaction.

If, as stated above, a holder cannot rely on the position of the Staff of the SEC set forth in "Exxon Capital Holdings Corporation" or similar interpretive letters, any effective registration statement used in connection with a secondary resale transaction must contain the selling security holder information required by Item 507 of Regulation S-K under the Securities Act.

With regard to broker-dealers, only broker-dealers that acquired the Old Notes as a result of market-making activities or other trading activities may participate in the exchange offer. Each broker-dealer that receives Exchange Notes for its own account in exchange for Old Notes, where such Old Notes were acquired by such broker-dealer as a result of market-making activities or other trading activities, must acknowledge that it will deliver a prospectus in connection with any resale of the Exchange Notes.

This prospectus may be used for an offer to resell, for the resale or for other retransfer of Exchange Notes only as specifically set forth in this prospectus.

Please read the section captioned "Plan of Distribution" for more details regarding these procedures for the transfer of Exchange Notes.

**Procedures for tendering Old Notes through brokers and banks**

Since the Old Notes are represented by global book-entry notes, DTC, as depositary, or its nominee is treated as the registered holder of the Old Notes and will be the only entity that can tender your Old Notes for Exchange Notes. Therefore, to tender Old Notes subject to this exchange offer and to obtain Exchange Notes, you must instruct the institution where you keep your Old Notes to tender your Old Notes on your behalf so that they are received on or prior to the expiration of this exchange offer.

**YOU SHOULD CONSULT YOUR ACCOUNT REPRESENTATIVE AT THE BROKER OR BANK WHERE YOU KEEP YOUR OLD NOTES TO DETERMINE THE PREFERRED PROCEDURE.**

**IF YOU WISH TO ACCEPT THIS EXCHANGE OFFER, PLEASE INSTRUCT YOUR BROKER OR ACCOUNT REPRESENTATIVE IN TIME FOR YOUR OLD NOTES TO BE TENDERED BEFORE THE 12:00 MIDNIGHT (NEW YORK CITY TIME) DEADLINE ON \_\_\_\_\_, 2014.**

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You may tender some or all of your Old Notes in this exchange offer. However, your Old Notes may be tendered only in minimum principal amounts of \$2,000 and integral multiples of \$1,000 in excess thereof.

When you tender your outstanding Old Notes and we accept them, the tender will be a binding agreement between you and us as described in this prospectus.

The method of delivery of outstanding Old Notes and all other required documents to the exchange agent is at your election and risk.

We will decide all questions about the validity, form, eligibility, acceptance and withdrawal of tendered Old Notes. We reserve the absolute right to:

reject any and all tenders of any particular Old Note not properly tendered;

refuse to accept any Old Note if, in our reasonable judgment or the judgment of our counsel, the acceptance would be unlawful; and

waive any defects or irregularities or conditions of the exchange offer as to any particular Old Notes before the expiration of the offer.

Our interpretation of the terms and conditions of the exchange offer will be final and binding on all parties. You must cure any defects or irregularities in connection with tenders of Old Notes as we will reasonably determine. Neither us, the exchange agent nor any other person will incur any liability for failure to notify you of any defect or irregularity with respect to your tender of Old Notes. If we waive any terms or conditions with respect to a noteholder, we will extend the same waiver to all noteholders with respect to that term or condition being waived.

### **Procedures for brokers and custodian banks; DTC ATOP accounts**

In order to accept this exchange offer on behalf of a holder of Old Notes you must submit or cause your DTC participant to submit an Agent's Message as described below.

The exchange agent, on our behalf, will seek to establish separate Automated Tender Offer Program ("ATOP") accounts with respect to each series of outstanding Old Notes at DTC promptly after the delivery of this prospectus. Any financial institution that is a DTC participant, including your broker or bank, may make book-entry tender of outstanding Old Notes by causing the book-entry transfer of such Old Notes into the relevant ATOP account in accordance with DTC's procedures for such transfers. Although delivery of the Old Notes may be effected through book-entry transfer into the exchange agent's account at DTC, unless an Agent's Message is received by the exchange agent in compliance with ATOP procedures, an appropriate letter of transmittal properly completed and duly executed with any required signature guarantee and all other required documents must in each case be transmitted to and received or confirmed by the exchange agent at its address set forth in this prospectus prior to 12:00 midnight, New York City time on to the expiration date. The confirmation of a book entry transfer into the ATOP account as described above is referred to herein as a "Book-Entry Confirmation."

The term "Agent's Message" means a message transmitted by the DTC participants to DTC, and thereafter transmitted by DTC to the exchange agent, forming a part of the Book-Entry Confirmation which states that DTC has received an express acknowledgment from the participant in DTC described in such Agent's Message stating that such participant has received the letter of transmittal and this prospectus and agrees to be bound by the terms of the letter of transmittal and the exchange offer set forth in this prospectus and that we may enforce such agreement against the participant.

Each Agent's Message must include the following information:

Name of the beneficial owner tendering such Old Notes;

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Account number of the beneficial owner tendering such Old Notes;

Principal amount of Old Notes tendered by such beneficial owner; and

A confirmation that the beneficial holder of the Old Notes tendered has made the representations for our benefit set forth under " Deemed representations."

**BY SENDING AN AGENT'S MESSAGE THE DTC PARTICIPANT IS DEEMED TO HAVE CERTIFIED THAT THE BENEFICIAL HOLDER FOR WHOM NOTES ARE BEING TENDERED HAS BEEN PROVIDED WITH A COPY OF THIS PROSPECTUS.**

The delivery of Old Notes through DTC, delivery of a letter of transmittal, and any transmission of an Agent's Message through ATOP, is at the election and risk of the person tendering Old Notes. We will ask the exchange agent to instruct DTC to promptly return those Old Notes, if any, that were tendered through ATOP but were not accepted by us, to the DTC participant that tendered such Old Notes on behalf of holders of the Old Notes.

**THE AGENT'S MESSAGE MUST BE TRANSMITTED TO THE EXCHANGE AGENT ON OR BEFORE 12:00 MIDNIGHT, NEW YORK CITY TIME, ON THE EXPIRATION DATE.**

**Acceptance of outstanding Old Notes for exchange; Delivery of Exchange Notes**

We will accept validly tendered Old Notes when the conditions to the exchange offer have been satisfied or we have waived them. We will have accepted your validly tendered Old Notes when we have given oral (promptly confirmed in writing) or written notice to the exchange agent. The exchange agent will act as agent for the tendering holders for the purpose of receiving the Exchange Notes from us. We will issue the Exchange Notes promptly after termination of the exchange offer. If we do not accept any tendered Old Notes for exchange by book-entry transfer because of an invalid tender or other valid reason, we will credit the Old Notes to an account maintained with DTC promptly after the exchange offer terminates or expires.

**Guaranteed delivery procedures**

If you desire to tender Old Notes pursuant to the exchange offer and (1) time will not permit your letter of transmittal and all other required documents to reach the exchange agent on or prior to the expiration date, or (2) the procedures for book-entry transfer (including delivery of an agent's message) cannot be completed on or prior to the expiration date, you may nevertheless tender such Old Notes with the effect that such tender will be deemed to have been received on or prior to the expiration date if all the following conditions are satisfied:

you must effect your tender through an "eligible guarantor institution";

a properly completed and duly executed notice of guaranteed delivery, substantially in the form provided by us herewith, or an agent's message with respect to guaranteed delivery that is accepted by us, is received by the exchange agent on or prior to the expiration date as provided below; and

a book-entry confirmation of the transfer of such notes into the exchange agent account at DTC as described above, together with a letter of transmittal (or a manually signed facsimile of the letter of transmittal) properly completed and duly executed, with any signature guarantees and any other documents required by the letter of transmittal or a properly transmitted agent's message, are received by the exchange agent within three business days after the date of execution of the notice of guaranteed delivery.

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The notice of guaranteed delivery may be sent by hand delivery, facsimile transmission or mail to the exchange agent and must include a guarantee by an eligible guarantor institution in the form set forth in the notice of guaranteed delivery.

**Withdrawal rights**

You may withdraw your tender of Old Notes at any time before 12:00 midnight, New York City time, on the expiration date.

For a withdrawal to be effective, you should contact your bank or broker where your Old Notes are held and have them send a telegram, telex, letter or facsimile transmission notice of withdrawal (or in the case of Old Notes transferred by book-entry transfer, an electronic ATOP transmission notice of withdrawal) so that it is received by the exchange agent before 12:00 midnight, New York City time, on the expiration date. Such notice of withdrawal must:

specify the name of the person that tendered the Old Notes to be withdrawn;

identify the Old Notes to be withdrawn, including the CUSIP number and principal amount at maturity of the Old Notes; specify the name and number of an account at the DTC to which your withdrawn Old Notes can be credited;

if applicable, be signed by the holder in the same manner as the original signature on the letter of transmittal by which such Old Notes were tendered, with any required signature guarantees, or be accompanied by documents of transfer sufficient to have the trustee with respect to the Old Notes register the transfer of such Old Notes into the name of the person withdrawing the tender; and

specify the name in which any such notes are to be registered, if different from that of the registered holder.

We will decide all questions as to the validity, form and eligibility of the notices and our determination will be final and binding on all parties. Any tendered Old Notes that you withdraw will not be considered to have been validly tendered. We will promptly return any outstanding Old Notes that have been tendered but not exchanged, or credit them to the DTC account. You may re-tender properly withdrawn Old Notes by following one of the procedures described above before the expiration date.

**Conditions to the exchange offer**

Notwithstanding any other provision of the exchange offer, or any extension of the exchange offer, we will not be required to accept for exchange, or to issue Exchange Notes in exchange for, any outstanding Old Notes and may terminate the exchange offer (whether or not any Old Notes have been accepted for exchange) or amend the exchange offer, if any of the following conditions has occurred or exists or has not been satisfied, or has not been waived by us, prior to the expiration date:

there is threatened, instituted or pending any action or proceeding before, or any injunction, order or decree issued by, any court or governmental agency or other governmental regulatory or administrative agency or commission:

- (1) seeking to restrain or prohibit the making or completion of the exchange offer or any other transaction contemplated by the exchange offer, or assessing or seeking any damages as a result of this transaction;
- (2) resulting in a material delay in our ability to accept for exchange or exchange some or all of the Old Notes in the exchange offer;

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- (3) any statute, rule, regulation, order or injunction has been sought, proposed, introduced, enacted, promulgated or deemed applicable to the exchange offer or any of the transactions contemplated by the exchange offer by any governmental authority, domestic or foreign; or

any action has been taken, proposed or threatened, by any governmental authority, domestic or foreign, that would, directly or indirectly, result in any of the consequences referred to in clauses (1), (2) or (3) above or would result in the holders of Exchange Notes having obligations with respect to resales and transfers of Exchange Notes which are greater than those described in the interpretation of the SEC referred to above;

any of the following has occurred:

- (1) any general suspension of or general limitation on prices for, or trading in, securities on any national securities exchange or in the over-the-counter market;
- (2) any limitation by a governmental authority which adversely affects our ability to complete the transactions contemplated by the exchange offer;
- (3) a declaration of a banking moratorium or any suspension of payments in respect of banks in the United States or any limitation by any governmental agency or authority which adversely affects the extension of credit;
- (4) a commencement of a war, armed hostilities or other similar international calamity directly or indirectly involving the United States, or, in the case of any of the preceding events existing at the time of the commencement of the exchange offer, a material acceleration or worsening of these calamities; or

any change, or any development involving a prospective change, has occurred or been threatened in our business, financial condition, operations or prospects and those of our subsidiaries taken as a whole that is or may be adverse to us, or we have become aware of facts that have or may have an adverse impact on the value of the Old Notes or the Exchange Notes;

there shall occur a change in the current interpretation by the Staff of the SEC which permits the Exchange Notes issued pursuant to the exchange offer in exchange for Old Notes to be offered for resale, resold and otherwise transferred by holders thereof (other than broker-dealers and any such holder which is our affiliate within the meaning of Rule 405 promulgated under the Securities Act) without compliance with the registration and prospectus delivery provisions of the Securities Act, provided that such Exchange Notes are acquired in the ordinary course of such holders' business and such holders have no arrangement or understanding with any person to participate in the distribution of such Exchange Notes;

any law, statute, rule or regulation shall have been adopted or enacted which would impair our ability to proceed with the exchange offer;

a stop order shall have been issued by the SEC or any state securities authority suspending the effectiveness of the registration statement, or proceedings shall have been initiated or, to our knowledge, threatened for that purpose, or any governmental approval necessary for the consummation of the exchange offer as contemplated hereby has not been obtained; or

we have received an opinion of counsel experienced in such matters to the effect that there exists any actual or threatened legal impediment (including a default or prospective default under an agreement, indenture or other instrument or obligation to which we are a party or by which we are bound) to the consummation of the transactions contemplated by the exchange



offer.

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If any of the foregoing events or conditions has occurred or exists or has not been satisfied, we may, subject to applicable law, terminate the exchange offer (whether or not any Old Notes have been accepted for exchange) or may waive any such condition or otherwise amend the terms of the exchange offer in any respect. If such waiver or amendment constitutes a material change to the exchange offer, we will promptly disclose such waiver or amendment by means of a prospectus supplement that will be distributed to the registered holders of the Old Notes and will extend the exchange offer to the extent required by Rule 14e-1 promulgated under the Exchange Act.

These conditions are for our sole benefit and we may assert them regardless of the circumstances giving rise to any of these conditions, or we may waive them, in whole or in part, provided that we will not waive any condition with respect to an individual holder of Old Notes unless we waive that condition for all such holders. Any reasonable determination made by us concerning an event, development or circumstance described or referred to above will be final and binding on all parties. Our failure at any time to exercise any of the foregoing rights will not be a waiver of our rights and each such right will be deemed an ongoing right which may be asserted at any time before the expiration of the exchange offer.

**Exchange agent**

We have appointed Law Debenture Trust Company of New York as the exchange agent for the exchange offer. You should direct questions, requests for assistance, and requests for additional copies of this prospectus and the letter of transmittal that may accompany this prospectus to the exchange agent addressed as follows:

**LAW DEBENTURE TRUST COMPANY OF NEW YORK, EXCHANGE AGENT**

*By Registered or Certified Mail or  
Overnight Carrier:*

Law Debenture Trust Company of  
New York  
400 Madison Avenue, 4th Floor  
New York, New York 10017  
Attention: Corporate Trust  
Department

*Facsimile Transmission:  
(for eligible institutions only)*

(212) 750-1361

*By Hand Delivery:*

Law Debenture Trust Company of  
New York  
400 Madison Avenue, 4th Floor  
New York, New York 10017  
Attention: Corporate Trust  
Department

*Confirm by Telephone:  
(212) 750-6474*

**Delivery to an address other than set forth above will not constitute a valid delivery.**

**Fees and expenses**

The principal solicitation is being made through DTC by Law Debenture Trust Company of New York, as exchange agent on our behalf. We will pay the exchange agent customary fees for its services, reimburse the exchange agent for its reasonable costs and expenses (including reasonable fees, costs and expenses of its counsel) incurred in connection with the provisions of these services and pay other registration expenses, including registration and filing fees, fees and expenses of compliance with federal securities and state blue sky securities laws, printing expenses, messenger and delivery services and telephone, fees and disbursements to our counsel, application and filing fees and any fees and disbursements to our independent certified public accountants. We will not make any payment to brokers, dealers, or others soliciting acceptances of the exchange offer except for reimbursement of mailing expenses.

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Additional solicitations may be made by telephone, facsimile or in person by our and our affiliates' officers employees and by persons so engaged by the exchange agent.

**Accounting treatment**

The Exchange Notes will be recorded at the same carrying value as the existing Old Notes, as reflected in our accounting records on the date of exchange. Accordingly, we will recognize no gain or loss for accounting purposes. The expenses of the exchange offer will be capitalized and expensed over the term of the Exchange Notes.

**Transfer taxes**

If you tender outstanding Old Notes for exchange you will not be obligated to pay any transfer taxes. However, if you instruct us to register Exchange Notes in the name of, or request that your Old Notes not tendered or not accepted in the exchange offer be returned to, a person other than the registered tendering holder, you will be responsible for paying any transfer tax owed.

**Consequences of failure to exchange**

The Old Notes that are not exchanged for Exchange Notes pursuant to the exchange offer will remain restricted securities. Accordingly, the Old Notes may be resold only:

to us upon redemption thereof or otherwise;

so long as the outstanding securities are eligible for resale pursuant to Rule 144A, to a person inside the United States who is a qualified institutional buyer within the meaning of Rule 144A under the Securities Act in a transaction meeting the requirements of Rule 144A, in accordance with Rule 144 under the Securities Act, or pursuant to another exemption from the registration requirements of the Securities Act, which other exemption is based upon an opinion of counsel reasonably acceptable to us;

outside the United States to a foreign person in a transaction meeting the requirements of Rule 904 under the Securities Act;  
or

pursuant to an effective registration statement under the Securities Act, in each case in accordance with any applicable securities laws of any state of the United States.

**YOU MAY SUFFER ADVERSE CONSEQUENCES IF YOU FAIL TO EXCHANGE OUTSTANDING OLD NOTES.**

If you do not tender your outstanding Old Notes, you will not have any further registration rights, except for the rights described in the Registration Rights Agreement and described above, and your Old Notes will continue to be subject to the provisions of the respective indenture governing the Old Notes regarding transfer and exchange of the Old Notes and the restrictions on transfer of the Old Notes imposed by the Securities Act and states securities law when we complete the exchange offer. These transfer restrictions are required because the Old Notes were issued under an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state securities laws. Accordingly, if you do not tender your Old Notes in the exchange offer, your ability to sell your Old Notes could be adversely affected. Once we have completed the exchange offer, holders who have not tendered notes will not continue to be entitled to any increase in interest rate that the indenture governing the Old Note provides for if we do not complete the exchange offer.

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Under certain limited circumstances, the Registration Rights Agreement requires that we file a shelf registration statement if:

we are not permitted by applicable law or SEC policy to file a registration statement covering the exchange offer or to consummate the exchange offer; or

any holder of the Old Notes notifies the issuer prior to the 20th calendar day following the consummation of the exchange offer that:

it is prohibited by law or SEC policy from participating in the exchange offer;

it may not resell the Exchange Notes acquired by it in the exchange offer to the public without delivering a prospectus and this prospectus is not appropriate or available for such resales; or

it is a broker-dealer and owns Old Notes acquired directly from the Issuer or an affiliate of the Issuer.

We will also register the Exchange Notes under the securities laws of jurisdictions that holders may request before offering or selling notes in a public offering. We do not intend to register Exchange Notes in any jurisdiction unless a holder requests that we do so.

Old Notes may be subject to restrictions on transfer until:

a person other than a broker-dealer has exchanged the Old Notes in the exchange offer;

a broker-dealer has exchanged the Old Notes in the exchange offer and sells them to a purchaser that receives a prospectus from the broker, dealer on or before the sale;

the Old Notes are sold under an effective shelf registration statement that we have filed; or

the Old Notes are sold to the public under Rule 144 of the Securities Act.

Table of Contents**USE OF PROCEEDS**

This exchange offer is intended to satisfy our obligations under the Registration Rights Agreement. We will not receive any cash proceeds, or otherwise, from the issuance of the Exchange Notes. The Old Notes properly tendered and exchanged for Exchange Notes will be retired and cancelled. Accordingly, no additional debt will result from the exchange. We have agreed to bear the expense of the exchange offer.

**RATIO OF EARNINGS TO FIXED CHARGES**

The ratio of earnings to fixed charges for the periods indicated is stated below. For this purpose, "earnings" include pre-tax income (loss) before adjustments for noncontrolling interest in our consolidated subsidiaries and income or loss from equity investees, plus fixed charges and distributed income of equity investees, reduced by interest capitalized. "Fixed charges" include interest, whether expensed or capitalized, amortization of debt expense and the portion of rental expense that is representative of the interest factor in these rentals.

	<b>Six Months Ended June 30, 2014</b>	<b>2013</b>	<b>Year Ended December 31,</b>			
		<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	
Ratio of earnings to fixed charges	0.57	0.26	0.84	0.77	2.03	3.27

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Table of Contents**CAPITALIZATION**

The following table sets forth our cash and cash equivalents and capitalization as of June 30, 2014 on an actual historical basis. The table below should be read in conjunction with "Use of Proceeds," the "Management's Discussion and Analysis of Financial Condition and Results of Operations" contained in our quarterly report on Form 10-Q for the quarter ended June 30, 2014, the "Management's Discussion and Analysis of Financial Condition and Results of Operations" contained in our 2013 Form 10-K and the consolidated financial statements and the related notes thereto incorporated by reference into this prospectus.

	<b>As of</b>
	<b>June 30, 2014</b>
	<b>(in millions)</b>
Cash and cash equivalents	\$ 1,481
Restricted cash	286
<b>Total cash and cash equivalents</b>	<b>\$ 1,767</b>
<b>Recourse debt:</b>	
Revolving credit facility(1)	
Term loan facility due 2018	1,992
7.625% Senior Notes due 2018	1,130
8.500% Senior Notes due 2019(2)	223
8.250% Senior Notes due 2020	1,063
7.875% Senior Notes due 2021	1,128
6.250% Senior Notes due 2022	1,100
6.625% Senior Notes due 2023	990
6.250% Senior Notes due 2024	1,000
Tax Exempt Bonds(3)	373
<b>Total recourse debt</b>	<b>\$ 8,999</b>
<b>Non-Recourse Debt:</b>	
NRG Yield(4)	1,999
EME Non-Recourse Debt(5)	1,228
Solar Non-Recourse Debt(6)	3,490
Unsecured Notes	3,092
Conventional Non-Recourse Debt	180
<b>Total non-recourse debt</b>	<b>9,989</b>
<b>Capital Leases</b>	<b>10</b>
<b>Total long-term debt and capital leases</b>	<b>\$ 18,998</b>
<b>3.625% Convertible preferred stock (net of issuance costs)</b>	<b>\$ 249</b>
<b>Stockholders' equity, excluding non-controlling interest</b>	<b>\$ 9,817</b>
<b>Total capitalization</b>	<b>\$ 30,831</b>

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(1)

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As of June 30, 2014, the total borrowing capacity under the revolving credit facility was \$2.5 billion, with \$1.3 billion in letters of credit outstanding thereunder.

- (2) Does not reflect redemption of all outstanding 8.50% Senior Notes due 2019 on September 3, 2014.
- (3) Includes (i) Indian River Power LLC, tax exempt bonds, due 2040 and 2045; (ii) Dunkirk Power LLC, tax exempt bonds, due 2042 and (iii) Fort Bend County, tax exempt bonds, due 2038 and 2042.
- (4) Does not include \$500 million aggregate principal amount of 5.375% senior notes due 2024 issued by NRG Yield on August 5, 2014.

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- (5) Includes non-recourse debt associated with assets classified as non-core under the purchase agreement in the amount of \$36 million.
- (6) Includes 100% of the California Valley Solar Ranch ("CVSR") project debt. NRG Yield owns 48.95% of CVSR.

For more information on the various components of our debt, refer to Note 7, *Debt and Capital Leases*, contained in our quarterly report on Form 10-Q for the quarter ended June 30, 2014 and Note 12, *Debt and Capital Leases*, to our audited consolidated financial statements contained in our 2013 Form 10-K, which are incorporated herein by reference.



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**DESCRIPTION OF CERTAIN OTHER INDEBTEDNESS AND PREFERRED STOCK**

**Senior secured credit facility**

NRG's existing senior secured credit facility (the "Senior Credit Facility") consists of a senior first priority secured \$2,022 million term loan (the "Term Loan Facility") and a \$2,511 million senior first priority secured revolving credit facility (the "Revolving Credit Facility"). The Term Loan Facility and Revolving Credit Facility will mature on July 1, 2018, unless each is otherwise extended.

The Senior Credit Facility is guaranteed by certain of NRG's existing and future direct and indirect subsidiaries, with certain customary or agreed-upon exceptions for foreign subsidiaries, project subsidiaries, and certain other subsidiaries. The capital stock of substantially all of NRG's subsidiaries, with certain exceptions for unrestricted subsidiaries, foreign subsidiaries, project subsidiaries and voting equity interests in excess of 66% of the total outstanding voting equity interest of certain of NRG's foreign subsidiaries and certain additional exceptions, has been pledged for the benefit of the Senior Credit Facility's lenders.

The Senior Credit Facility is also secured by first priority perfected security interests in substantially all of the property and assets owned or acquired by NRG and its domestic subsidiaries, other than certain limited exceptions. These exceptions include assets of certain unrestricted subsidiaries and equity interests in certain of NRG's project subsidiaries that have non-recourse debt financing and a basket of assets up to \$750 million at any time outstanding. The Senior Credit Facility is secured pari passu with certain interest rate and commodity hedging obligations of NRG.

The Senior Credit Facility contains customary covenants, which, among other things, require NRG to meet certain financial tests, consisting of a minimum interest coverage ratio and a maximum leverage ratio on a consolidated basis, and limit NRG's ability to:

incur indebtedness and liens and enter into sale and lease-back transactions;

make investments, loans and advances;

return capital to shareholders;

repay subordinated indebtedness;

consummate mergers, consolidations and asset sales;

enter into affiliate transactions; and

change its fiscal year-end.

**Senior notes under 2006 indenture**

In addition to the Old Notes, NRG has issued four outstanding series of senior notes under an indenture, dated February 2, 2006 (the "Base Indenture"), between us and Law Debenture Trust Company of New York, as trustee, as supplemented by supplemental indentures setting forth the terms of each such series:

8.250% senior notes, issued August 20, 2010 and due September 1, 2020 (the "2020 Senior Notes");

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7.625% senior notes, issued January 26, 2011 and due January 15, 2018 (the "2018 Senior Notes");

7.875% senior notes, issued May 24, 2011 and due May 15, 2021 (the "2021 Senior Notes"); and

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6.625% senior notes issued September 24, 2012 and due March 15, 2023 (the "2023 Senior Notes" and, together with the 2020 Senior Notes, the 2018 Senior Notes and the 2021 Notes, the "Senior Notes").

Supplemental indentures to each series of notes have been issued to add newly formed or acquired subsidiaries as guarantors (together with the Base Indenture, the "Existing Senior Notes Indentures").

The Existing Senior Notes Indentures and the form of notes provide, among other things, that the Senior Notes will be senior unsecured obligations of NRG. The Existing Senior Notes Indentures also provide for customary events of default, which include, among others: nonpayment of principal or interest; breach of other agreements in the Existing Senior Notes Indentures; defaults in failure to pay certain other indebtedness; the rendering of judgments to pay certain amounts of money against NRG and its subsidiaries; the failure of certain guarantees to be enforceable; and certain events of bankruptcy or insolvency. Generally, if an event of default occurs, the trustee or the holders of at least 25% in principal amount of the then outstanding series of Senior Notes may declare all of the Senior Notes of such series to be due and payable immediately.

The terms of the Existing Senior Notes Indentures, among other things, limit our ability and the ability of certain of our subsidiaries to:

incur additional debt or issue some types of preferred shares;

declare or pay dividends, redeem stock or make other distributions to stockholders;

create liens;

make certain restricted investments;

enter into transactions with affiliates;

sell or transfer assets; and

consolidate or merge.

Interest is payable semi-annually on the Senior Notes until their maturity dates.

Prior to September 1, 2015, NRG may redeem all or a portion of the 2020 Senior Notes at a price equal to 100% of the principal amount of the notes redeemed, plus a premium and any accrued and unpaid interest. The premium is the greater of (i) 1% of the principal amount of the notes redeemed, or (ii) the present value of 104.125% of the notes redeemed, plus interest payments due on the notes redeemed from the date of redemption through September 1, 2015, discounted at a Treasury rate plus 0.50% over the principal amount of the notes redeemed. On or after September 1, 2015, NRG may redeem some or all of the notes at redemption prices set forth in the supplemental indenture governing the 2020 Senior Notes, plus accrued and unpaid interest on the notes redeemed to the applicable redemption date.

At any time prior to maturity, NRG may redeem all or a portion of the 2018 Senior Notes at a price equal to 100% of the principal amount of the notes redeemed, plus a premium and any accrued and unpaid interest. The premium is the greater of (i) 1% of the principal amount of the notes redeemed, or (ii) the present value of the notes redeemed, plus interest payments due on the notes redeemed from the date of redemption through January 15, 2018, discounted at a Treasury rate plus 0.50% over the principal amount of the notes redeemed.

Prior to May 15, 2016, NRG may redeem up to 35% of the 2021 Senior Notes at a price equal to 107.875% of the principal amount of the notes redeemed, provided at least 65% of the aggregate principal amount of the notes issued remain outstanding after the redemption. Prior to May 15, 2016, NRG may redeem all or a portion of the 2021 Senior Notes at a price equal to 100% of the principal amount of the notes redeemed, plus a premium and any accrued and unpaid interest. The premium is



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the greater of (i) 1% of the principal amount of the notes redeemed, or (ii) the present value of 103.938% of the notes redeemed, plus interest payments due on the notes redeemed from the date of redemption through May 15, 2016, discounted at a Treasury rate plus 0.50% over the principal amount of the notes redeemed. On or after May 15, 2016, NRG may redeem some or all of the notes at redemption prices set forth in the supplemental indenture governing the 2021 Senior Notes, plus accrued and unpaid interest on the notes redeemed to the applicable redemption date.

Prior to September 15, 2015, NRG may redeem up to 35% of the 2023 Senior Notes with net cash proceeds of certain equity offerings at a price of 106.625% of the principal amount of the notes redeemed, provided at least 65% of the aggregate principal amount of the notes issued remain outstanding after the redemption. Prior to September 15, 2017, NRG may redeem all or a portion of the 2023 Senior Notes at a price equal to 100% of the principal amount of the notes redeemed, plus a premium and any accrued and unpaid interest. The premium is the greater of (i) 1% of the principal amount of the notes redeemed, or (ii) the present value of 103.313% of the notes redeemed, plus interest payments due on the notes redeemed from the date of redemption through September 15, 2017, discounted at a Treasury rate plus 0.50% over the principal amount of the notes redeemed. On or after September 15, 2017, NRG may redeem some or all of the notes at redemption prices set forth in the indenture governing the 2023 Senior Notes, plus accrued and unpaid interest on the notes redeemed to the applicable redemption date.

**Senior notes under 2014 indenture**

On April 21, 2014, NRG issued its 6.25% senior notes due 2024 (the "2024 Senior Notes"). The 2024 Senior Notes are senior unsecured obligations of NRG and are guaranteed by certain of its subsidiaries. Interest is payable semi-annually beginning on November 1, 2014, until the maturity date of May 1, 2024.

The terms of the indenture, among other things, limit the ability of NRG and certain of its subsidiaries to create liens on assets and consolidate, merge or transfer all or substantially all of its assets and the assets of its subsidiaries.

The indenture provides for customary events of default, which include (subject in certain cases to customary grace and cure periods), among others: nonpayment of principal or interest; breach of other agreements in the indentures; defaults in failure to pay certain other indebtedness; the rendering of judgments to pay certain amounts of money against NRG and its subsidiaries; the failure of certain guarantees to be enforceable; and certain events of bankruptcy or insolvency. Generally, if an event of default occurs and is not cured within the time periods specified, the trustee or the holders of at least 25% in principal amount of the then outstanding 2024 Senior Notes may declare all the 2024 Senior Notes of such series to be due and payable immediately.

At any time prior to May 1, 2017, NRG may redeem up to 35% of the 2024 Senior Notes at a price equal to 106.25% of the principal amount of the notes redeemed, provided at least 65% of the aggregate principal amount of the notes issued remain outstanding after the redemption. Prior to May 1, 2019, NRG may redeem all or a portion of the 2024 Senior Notes at a price equal to 100% of the principal amount of the notes redeemed, plus a premium and any accrued and unpaid interest. The premium is the greater of (i) 1% of the principal amount of the notes redeemed, or (ii) the present value of the notes redeemed, plus interest payments due on the notes redeemed from the date of redemption through May 1, 2019, discounted at a Treasury rate plus 0.50% over the principal amount of the notes redeemed. On or after May 1, 2019, NRG may redeem some or all of the notes at redemption prices set forth in the supplemental indenture governing the 2024 Senior Notes, plus accrued and unpaid interest on the notes redeemed to the applicable redemption date.

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**Preferred stock**

As of June 30, 2014, NRG's outstanding preferred stock consisted of the 3.625% Convertible Perpetual Preferred Stock (the "3.625% Preferred Stock"), which is treated as Redeemable Preferred Stock.

***3.625% Preferred Stock***

On August 11, 2005, NRG issued 250,000 shares of 3.625% Preferred Stock, which is treated as Redeemable Preferred Stock, to the Credit Suisse Group in a private placement. As of June 30, 2014, 250,000 shares of the 3.625% Preferred Stock were issued and outstanding at a liquidation value, net of issuance costs, of \$249 million. The 3.625% Preferred Stock has a liquidation preference of \$1,000 per share. Holders of the 3.625% Preferred Stock are entitled to receive, out of legally available funds, cash dividends at the rate of 3.625% per annum, or \$36.25 per share per year, payable in cash quarterly in arrears commencing on December 15, 2005.

Each share of the 3.625% Preferred Stock is convertible during the 90-day period beginning August 11, 2015 at the option of NRG or the holder. Holders tendering the 3.625% Preferred Stock for conversion shall be entitled to receive, for each share of 3.625% Preferred Stock converted, \$1,000 in cash and a number of shares of NRG common stock equal in value to the product of (a) the greater of (i) the difference between the average closing share price of NRG common stock on each of the 20 consecutive scheduled trading days starting on the date 30 exchange business days immediately prior to the conversion date (the "Market Price"), and \$29.54 and (ii) zero, times (b) 50.77. The number of NRG common stock to be delivered under the conversion feature is limited to 16,000,000 shares. If upon conversion, the Market Price is less than \$19.69, then the Holder will deliver to NRG cash or a number of shares of NRG common stock equal in value to the product of (i) \$19.69 minus the Market Price, times (ii) 50.77. NRG may elect to make a cash payment in lieu of delivering shares of NRG common stock in connection with such conversion, and NRG may elect to receive cash in lieu of shares of common stock, if any, from the Holder in connection with such conversion. The conversion feature is considered an embedded derivative per ASC 815 that is exempt from derivative accounting as it's excluded from the scope pursuant to ASC 815.

If a fundamental change occurs, the holders will have the right to require NRG to repurchase all or a portion of the 3.625% Preferred Stock for a period of time after the fundamental change at a purchase price equal to 100% of the liquidation preference, plus accumulated and unpaid dividends. The 3.625% Preferred Stock is senior to all classes of common stock and junior to all of NRG's existing and future debt obligations and all of NRG subsidiaries' existing and future liabilities and capital stock held by persons other than NRG or its subsidiaries.

**Credit support and collateral arrangement**

In connection with our power generation business, we manage the commodity price risk associated with our supply activities and our electric generation facilities. This includes forward power sales, fuel and energy purchases and emission credits. In order to manage these risks, we enter into financial instruments to hedge the variability in future cash flows from forecasted sales of electricity and purchases of fuel and energy. We utilize a variety of instruments including forward contracts, futures contracts, swaps and options. Certain of these contracts allow counterparties to require us to provide credit support. This credit support consists of letters of credit, cash, guarantees and liens on our assets.

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**DESCRIPTION OF THE NOTES**

*In this description, "NRG" refers only to NRG Energy, Inc. and not to any of its subsidiaries.*

NRG issued the Old Notes under a supplemental indenture, which, together with the Base Indenture, we refer to as the "indenture." The terms of the Exchange Notes offered in exchange for the Old Notes will be substantially identical to the terms of the Old Notes, except that the Exchange Notes are registered under the Securities Act, and the transfer restrictions, registration rights and related additional interest terms applicable to the Old Notes (as described under "Exchange Offer Purpose of the exchange offer") will not apply to the Exchange Notes. As a result, we refer to the Exchange Notes and the Old Notes collectively as the "notes" for purposes of the following summary.

The statements under this caption relating to the indenture and the notes are summaries and are not a complete description thereof, and where reference is made to particular provisions, such provisions, including the definitions of certain terms, are qualified in their entirety by reference to all of the provisions of the indenture and the notes and those terms made part of the indenture by the Trust Indenture Act of 1939, as amended (the "Trust Indenture Act"). The definitions of certain capitalized terms used in the following summary are set forth under the caption " Certain definitions." Certain defined terms used in this description but not defined below under " Certain definitions" have the meanings assigned to them in the indenture and the registration rights agreement. Copies of the indenture are available upon request from the Company. We urge you to read these documents carefully because they, and not the following description, govern your rights as a holder.

The registered holder of a note is treated as the owner of it for all purposes. Only registered holders have rights under the indenture governing the notes. The registered holder of a note is treated as the owner of it for all purposes. Only registered holders of notes have rights under the indenture.

**Brief description of the notes**

The notes:

will be general unsecured obligations of NRG;

will be pari passu in right of payment with all existing and future unsecured senior Indebtedness of NRG;

will be pari passu in right of payment with the Existing Senior Notes;

will be senior in right of payment to any future subordinated Indebtedness of NRG; and

will be fully and unconditionally guaranteed on a joint and several basis by the Guarantors.

However, the notes will be effectively subordinated to all borrowings under the Credit Agreement, which is secured by substantially all of the assets of NRG and the Guarantors, and any other secured Indebtedness (including any Hedging Obligations secured by junior liens on assets of NRG or its Subsidiaries) we have, in each case to the extent of the value of the assets that secure the Credit Agreement or other secured Indebtedness, as the case may be. See "Risk Factors Risks related to the notes In the event of a bankruptcy or insolvency, holders of our secured indebtedness and other secured obligations will have a prior secured claim to any collateral securing such indebtedness or other obligations."

**The subsidiary guarantees**

The notes will be guaranteed by the Guarantors. Each guarantee of the notes:

will be a general unsecured obligation of the Guarantor;





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will be pari passu in right of payment with all unsecured senior Indebtedness of that Guarantor; and

will be senior in right of payment to any future subordinated Indebtedness of that Guarantor.

However, each Guarantor's guarantee of the notes will be effectively subordinated to such Guarantor's guarantee under the Credit Agreement and any other secured Indebtedness (including any Hedging Obligations secured by junior liens on assets such Guarantor) of such Guarantor, in each case to the extent of the value of the assets of such Guarantor that secure the Credit Agreement or other secured Indebtedness, as the case may be.

The operations of NRG are largely conducted through its subsidiaries and, therefore, NRG depends on the cash flow of its subsidiaries to meet its obligations, including its obligations under the notes. Not all of NRG's subsidiaries will guarantee the notes. The notes will be effectively subordinated in right of payment to all Indebtedness and other liabilities and commitments (including trade payables, lease obligations, indebtedness for borrowed money and hedging obligations) of these non-guarantor subsidiaries. Any right of NRG to receive assets of any of its subsidiaries upon the subsidiary's liquidation or reorganization (and the consequent right of the holders of the notes to participate in those assets) will be effectively subordinated to the claims of that subsidiary's creditors, except to the extent that NRG is itself recognized as a creditor of the subsidiary, in which case its claims would still be subordinate in right of payment to any security in the assets of the subsidiary and any indebtedness of the subsidiary senior to that held by NRG. The guarantor subsidiaries accounted for approximately 67% of NRG's revenues from wholly-owned operations for the six months ended June 30, 2014. The guarantor subsidiaries held approximately 59% of NRG's consolidated assets as of June 30, 2014. As of June 30, 2014, NRG's non-guarantor subsidiaries had approximately \$10,102 million in aggregate principal amount of non-current liabilities and outstanding trade payables of approximately \$325 million. See "Risk Factors Risks related to the notes Your right to receive payments on the notes could be adversely affected if any of our non-guarantor subsidiaries declare bankruptcy, liquidate, or reorganize." See Note 16, *Condensed Consolidating Financial Information*, to the condensed consolidated financial statements of NRG for the period ended June 30, 2014 incorporated by reference into this prospectus for more detail about the historical division of NRG Energy, Inc.'s consolidated revenues and assets between the Guarantor and non-Guarantor Subsidiaries.

Under the circumstances described below under the caption " Certain covenants Designation of restricted, unrestricted and excluded project subsidiaries," NRG will be permitted to designate certain of its subsidiaries as "Unrestricted Subsidiaries" or "Excluded Project Subsidiaries." NRG's Unrestricted Subsidiaries will not be subject to many of the restrictive covenants in the indentures. NRG's Unrestricted Subsidiaries and Excluded Subsidiaries will not guarantee the notes.

**Principal, maturity and interest**

NRG will issue \$1,100 million in aggregate principal amount of Exchange Notes in this offering. NRG may issue additional notes of the same series under the indenture from time to time after this offering. Any issuance of additional notes is subject to all of the covenants in the indenture, including the covenant described below under the caption " Certain covenants Incurrence of indebtedness and issuance of preferred stock." The notes and any additional notes of the same series subsequently issued under the indenture will be treated as a single class for all purposes under the indenture, including, without limitation, waivers, amendments, redemptions and offers to purchase. NRG will issue notes in denominations of \$2,000 and integral multiples of \$1,000 in excess thereof. The notes will mature on July 15, 2022.

Interest on the notes will accrue at the rate of 6.25% per annum, and will be payable semi-annually in arrears on January 15 and July 15 of each year. NRG will make each interest payment to the holders of record on the immediately preceding January 1 and July 1.

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Interest on the notes will accrue from the date of original issuance or, if interest has already been paid, from the date it was most recently paid. Interest will be computed on the basis of a 360-day year comprised of twelve 30-day months.

**Methods of receiving payments on the notes**

If a holder of notes has given wire transfer instructions to NRG, NRG will pay or cause to be paid all principal, interest and premium on that holder's notes in accordance with those instructions. All other payments on notes will be made at the office or agency of the paying agent and registrar within the City and State of New York unless NRG elects to make interest payments by check mailed to the noteholders at their address set forth in the register of holders.

**Paying agent and registrar for the notes**

The trustee will initially act as paying agent and registrar. NRG may change the paying agent or registrar without prior notice to the holders of the notes, and NRG or any of its Subsidiaries may act as paying agent or registrar.

**Transfer and exchange**

A holder may transfer or exchange notes in accordance with the provisions of the indenture. The registrar and the trustee may require a holder, among other things, to furnish appropriate endorsements and transfer documents in connection with a transfer of notes. Holders will be required to pay all taxes due on transfer. NRG is not required to transfer or exchange any note selected for redemption. Also, NRG is not required to transfer or exchange any note for a period of 15 days before a selection of notes to be redeemed.

**Subsidiary guarantees**

NRG's payment obligations under the notes will be guaranteed on a full and unconditional basis by each of NRG's current and future Restricted Subsidiaries, other than the Excluded Subsidiaries for so long as they constitute Excluded Subsidiaries. These Subsidiary Guarantees will be joint and several obligations of the Guarantors. The obligations of each Guarantor under its Subsidiary Guarantee will be limited as necessary to prevent that Subsidiary Guarantee from constituting a fraudulent conveyance under applicable law. See "Risk Factors Risks related to the notes Federal and state statutes allow courts, under specific circumstances, to void guarantees and require note holders to return payments received from guarantors."

A Guarantor may not sell or otherwise dispose of all or substantially all of its assets to, or consolidate with or merge with or into (whether or not such Guarantor is the surviving Person), another Person, other than NRG or another Guarantor, unless:

- (1) immediately after giving effect to that transaction, no Default or Event of Default exists; and
- (2) either:
  - (a) the Person acquiring the property in any such sale or disposition or the Person formed by or surviving any such consolidation or merger assumes all the obligations of that Guarantor under the indenture, the registration rights agreement and its Subsidiary Guarantee pursuant to supplemental agreements reasonably satisfactory to the trustee under the indenture;
  - (b) the Net Proceeds of such sale or other disposition are applied in accordance with the applicable provisions of the indenture; or

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(c) immediately after giving effect to that transaction, such Person qualifies as an Excluded Subsidiary.

The Subsidiary Guarantee of a Guarantor will be released automatically:

(1) in connection with any sale or other disposition of all or substantially all of the assets of that Guarantor (including by way of merger or consolidation) to a Person that is not (either before or after giving effect to such transaction) NRG or a Restricted Subsidiary of NRG, if the sale or other disposition does not violate the "Asset Sale" provisions of the indenture;

(2) in connection with any sale or other disposition of Capital Stock of that Guarantor to a Person that is not (either before or after giving effect to such transaction) NRG or a Restricted Subsidiary of NRG, if (a) the sale or other disposition does not violate the "Asset Sale" provisions of the indenture and (b) following such sale or other disposition, that Guarantor is not a direct or indirect Subsidiary of NRG;

(3) if NRG designates any Restricted Subsidiary that is a Guarantor to be an Unrestricted Subsidiary in accordance with the applicable provisions of the indenture;

(4) the date that any Subsidiary that is not an Excluded Subsidiary becomes an Excluded Subsidiary;

(5) upon defeasance or satisfaction and discharge of the notes as provided below under the captions " Legal defeasance and covenant defeasance" and " Satisfaction and discharge";

(6) upon a dissolution of a Guarantor that is permitted under the indenture; or

(7) otherwise with respect to the Guarantee of any Guarantor, upon:

(a) the prior consent of holders of at least a majority in aggregate principal amount of the notes then outstanding;

(b) the consent of requisite lenders under the Credit Agreement (as amended, restated, modified, renewed, refunded, replaced or refinanced from time to time) to the release of such Guarantor's Guarantee of all Obligations under the Credit Agreement; or

(c) the contemporaneous release of such Guarantor's Guarantee of all Obligations under the Credit Agreement (as amended, restated, modified, renewed, refunded, replaced or refinanced from time to time).

See " Repurchase at the option of holders Asset sales."

**Optional redemption**

At any time prior to July 15, 2017, NRG may on any one or more occasions redeem up to 35% of the aggregate principal amount of the notes, upon not less than 30 nor more than 60 days notice, at a redemption price of 106.25% of the principal amount, plus accrued and unpaid interest to the redemption date, with an amount equal to the net cash proceeds of one or more Equity Offerings; *provided* that:

(1) at least 65% of the aggregate principal amount of the notes (excluding notes held by NRG and its Subsidiaries) remains outstanding immediately after the occurrence of such redemption; and

(2) the redemption occurs within 90 days of the date of the closing of such Equity Offering.

At any time prior to July 15, 2018, NRG may on any one or more occasions redeem all or a part of the notes, upon not less than 30 nor more than 60 days' prior notice, at a redemption price equal to 100% of the principal amount of notes redeemed plus the Applicable Premium as of, and accrued and

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unpaid interest, if any, to the redemption date, subject to the rights of holders of notes on the relevant record date to receive interest due on the relevant interest payment date.

Except pursuant to the preceding two paragraphs, the notes will not be redeemable at NRG's option prior to July 15, 2018. NRG is not prohibited, however, from acquiring the notes in market transactions by means other than a redemption, whether pursuant to a tender offer or otherwise, assuming such action does not otherwise violate the indenture.

On or after July 15, 2018, NRG may on any one or more occasions redeem all or a part of the notes upon not less than 30 nor more than 60 days' notice, at the redemption prices (expressed as percentages of principal amount) set forth below plus accrued and unpaid interest on the notes redeemed, to the applicable redemption date, if redeemed during the 12-month period beginning on July 15 of the years indicated below, subject to the rights of noteholders on the relevant record date to receive interest on the relevant interest payment date:

<b>Year</b>	<b>Percentage</b>
2018	103.125%
2019	101.5625%
2020 and thereafter	100.000%

**Mandatory redemption**

NRG is not required to make mandatory redemption or sinking fund payments with respect to the notes.

**Repurchase at the option of holders***Change of control triggering event*

If a Change of Control Triggering Event occurs, each holder of notes will have the right to require NRG to repurchase all or any part (equal to \$2,000 or an integral multiple of \$1,000 in excess thereof) of that holder's notes pursuant to a Change of Control Offer on the terms set forth in the indenture. In the Change of Control Offer, NRG will offer a Change of Control Payment in cash equal to 101% of the aggregate principal amount of the notes, plus accrued and unpaid interest on the notes to the date of purchase, subject to the rights of noteholders on the relevant record date to receive interest due on the relevant interest payment date. Within 30 days following any Change of Control Triggering Event, NRG will mail a notice to each holder describing the transaction or transactions that constitute the Change of Control and offering to repurchase notes on the Change of Control Payment Date specified in the notice, which date will be no earlier than 30 days and no later than 60 days from the date such notice is mailed, pursuant to the procedures required by the indenture and described in such notice. NRG will comply with the requirements of Rule 14e-1 under the Exchange Act and any other securities laws and regulations thereunder to the extent those laws and regulations are applicable in connection with the repurchase of the notes as a result of a Change of Control. To the extent that the provisions of any securities laws or regulations conflict with the Change of Control provisions of the indenture, NRG will comply with the applicable securities laws and regulations and will not be deemed to have breached its obligations under the Change of Control provisions of the indenture by virtue of such compliance.

On the Change of Control Payment Date, NRG will, to the extent lawful:

- (1) accept for payment all notes or portions of notes properly tendered pursuant to the Change of Control Offer;
- (2) deposit with the paying agent an amount equal to the Change of Control Payment in respect of all notes or portions of notes properly tendered; and

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(3) deliver or cause to be delivered to the trustee the notes properly accepted together with an officers' certificate stating the aggregate principal amount of notes or portions of notes being purchased by NRG.

The paying agent will promptly mail to each holder of notes properly tendered the Change of Control Payment for the notes, and the trustee will promptly authenticate and mail (or cause to be transferred by book entry) to each holder a new note equal in principal amount to any unpurchased portion of the notes surrendered, if any; *provided* that each new note will be in a principal amount of \$2,000 or an integral multiple of \$1,000 in excess thereof. NRG will publicly announce the results of the Change of Control Offer on or as soon as practicable after the Change of Control Payment Date.

The provisions described above that require NRG to make a Change of Control Offer following a Change of Control Triggering Event will be applicable whether or not any other provisions of the indenture are applicable.

Except as described above with respect to a Change of Control Triggering Event, the indenture does not contain provisions that permit the holders of the notes to require that NRG repurchase or redeem the notes in the event of a takeover, recapitalization or similar transaction.

NRG will not be required to make a Change of Control Offer upon a Change of Control Triggering Event if (1) a third party makes the Change of Control Offer in the manner, at the times and otherwise in compliance with the requirements set forth in the indenture applicable to a Change of Control Offer made by NRG and purchases all notes properly tendered and not withdrawn under the Change of Control Offer, or (2) notice of redemption has been given pursuant to the indenture as described above under the caption " Optional redemption," unless and until there is a default in payment of the applicable redemption price. A Change in Control Offer may be made in advance of a Change of Control Triggering Event, with the obligation to pay and the timing of payment conditioned upon the occurrence of a Change of Control Triggering Event, if a definitive agreement to effect a Change of Control is in place at the time the Change of Control Offer is made.

The definition of Change of Control includes a phrase relating to the direct or indirect sale, lease, transfer, conveyance or other disposition of "all or substantially all" of the properties or assets of NRG and its Subsidiaries taken as a whole. There is a limited body of case law interpreting the phrase "substantially all," and there is no precise established definition of the phrase under applicable law. Accordingly, the ability of a holder of notes to require NRG to repurchase its notes as a result of a sale, lease, transfer, conveyance or other disposition of less than all of the assets of NRG and its Subsidiaries taken as a whole to another Person or group may be uncertain.

***Asset sales***

NRG will not, and will not permit any of its Restricted Subsidiaries to, consummate an Asset Sale unless:

(1) NRG (or the Restricted Subsidiary, as the case may be) receives consideration at the time of the Asset Sale at least equal to the fair market value of the assets or Equity Interests issued or sold or otherwise disposed of; and

(2) at least 75% of the consideration received in the Asset Sale by NRG or such Restricted Subsidiary is in the form of cash. For purposes of this provision, each of the following will be deemed to be cash:

(a) any liabilities, as shown on NRG's most recent consolidated balance sheet, of NRG or any Restricted Subsidiary (other than contingent liabilities and liabilities that are by their terms subordinated to the notes or any Subsidiary Guarantee) that are assumed by the

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transferee of any such assets pursuant to a customary novation agreement that releases NRG or such Restricted Subsidiary from further liability;

(b) any securities, notes or other obligations received by NRG or any such Restricted Subsidiary from such transferee that are converted by NRG or such Restricted Subsidiary into cash within 180 days of the receipt of such securities, notes or other obligations, to the extent of the cash received in that conversion;

(c) any stock or assets of the kind referred to in clauses (4) or (6) of the next paragraph of this covenant; and

(d) any Designated Noncash Consideration received by NRG or any Restricted Subsidiary in such Asset Sale having an aggregate fair market value, taken together with all other Designated Noncash Consideration received pursuant to Section 4.10(a)(2)(D) of the Existing Indenture since the Original Issue Date that is at the time outstanding, not to exceed the greater of (x) \$500.0 million or (y) 2.5% of Total Assets at the time of the receipt of such Designated Noncash Consideration, with the fair market value of each item of Designated Noncash Consideration being measured at the time received and without giving effect to subsequent changes in value.

Within 365 days after the receipt of any Net Proceeds from an Asset Sale, other than Excluded Proceeds, NRG (or the applicable Restricted Subsidiary, as the case may be) may apply those Net Proceeds or, at its option, enter into a binding commitment to apply such Net Proceeds within the 365-day period following the date of such commitment (an "Acceptable Commitment"):

(1) to repay Indebtedness and other Obligations under a Credit Facility and, if such Indebtedness is revolving credit Indebtedness, to correspondingly reduce commitments with respect thereto;

(2) in the case of a sale of assets pledged to secure Indebtedness (including Capital Lease Obligations), to repay the Indebtedness secured by those assets;

(3) in the case of an Asset Sale by a Restricted Subsidiary that is not a Guarantor, to repay Indebtedness of a Restricted Subsidiary that is not a Guarantor (other than Indebtedness owed to NRG or another Restricted Subsidiary of NRG);

(4) to acquire all or substantially all of the assets of, or any Capital Stock of, another Person engaged primarily in a Permitted Business, if, after giving effect to any such acquisition of Capital Stock, such Person is or becomes a Restricted Subsidiary of NRG and a Guarantor;

(5) to make a capital expenditure;

(6) to acquire other assets that are not classified as current assets under GAAP and that are used or useful in a Permitted Business; or

(7) any combination of the foregoing.

Pending the final application of any such Net Proceeds and notwithstanding clause (1) above, NRG may temporarily reduce revolving credit borrowings or otherwise use the Net Proceeds in any manner that is not prohibited by the indenture.

Notwithstanding the preceding paragraph, in the event that regulatory approval is necessary for an asset or investment, or construction, repair or restoration of any asset or investment has commenced, then NRG or any Restricted Subsidiary shall have an additional 365 days to apply the Net Proceeds from such Asset Sale in accordance with the preceding paragraph.

Any Acceptable Commitment that is later canceled or terminated for any reason before such Net Proceeds are so applied shall be treated as a permitted application of the Net Proceeds if NRG or such

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Restricted Subsidiary enters into another Acceptable Commitment within the later of (a) nine months of such cancellation or termination or (b) the end of the initial 365-day period.

Any Net Proceeds from Asset Sales (other than Excluded Proceeds) that are not applied or invested as provided above will constitute "Excess Proceeds." When the aggregate amount of Excess Proceeds exceeds \$100.0 million, or at such earlier date as may be selected by NRG, NRG will make an Asset Sale Offer to all holders of notes and all holders of other Indebtedness (including Indebtedness evidenced by the Existing Senior Notes) that is *pari passu* with the notes containing provisions similar to those set forth in the indenture with respect to offers to purchase or redeem with the proceeds of sales of assets to purchase the maximum principal amount of notes and such other *pari passu* Indebtedness that may be purchased out of the Excess Proceeds. The offer price in any Asset Sale Offer will be equal to 100% of the principal amount plus accrued and unpaid interest to the date of purchase and will be payable in cash. If any Excess Proceeds remain after consummation of an Asset Sale Offer, NRG may use those Excess Proceeds for any purpose not otherwise prohibited by the indenture. If the aggregate principal amount of notes and other *pari passu* Indebtedness tendered into such Asset Sale Offer exceeds the amount of Excess Proceeds, the trustee will select the notes and such other *pari passu* Indebtedness to be purchased on a pro rata basis. Upon completion of each Asset Sale Offer, the amount of Excess Proceeds will be reset at zero.

NRG will comply with the requirements of Rule 14e-1 under the Exchange Act and any other securities laws and regulations thereunder to the extent those laws and regulations are applicable in connection with each repurchase of notes pursuant to an Asset Sale Offer. To the extent that the provisions of any securities laws or regulations conflict with the Asset Sale provisions of the indenture, NRG will comply with the applicable securities laws and regulations and will not be deemed to have breached its obligations under the Asset Sale provisions of the indenture by virtue of such compliance.

The agreements governing NRG's other Indebtedness, including the Credit Agreement, contain, and future agreements may contain, prohibitions of certain events, including events that would constitute a Change of Control or an Asset Sale and including repurchases of or other prepayments in respect of the notes. The exercise by the holders of notes of their right to require NRG to repurchase the notes upon a Change of Control Triggering Event or an Asset Sale could cause a default under these other agreements, even if the Change of Control Triggering Event or Asset Sale itself does not, due to the financial effect of such repurchases on NRG. In the event a Change of Control Triggering Event or Asset Sale occurs at a time when NRG is prohibited from purchasing notes, NRG could seek the consent of its senior lenders to the purchase of notes or could attempt to refinance the borrowings that contain such prohibition. If NRG does not obtain a consent or repay those borrowings, NRG will remain prohibited from purchasing notes. In that case, NRG's failure to purchase tendered notes would constitute an Event of Default under the indentures which could, in turn, constitute a default under the other indebtedness. Finally, NRG's ability to pay cash to the holders of notes upon a repurchase may be limited by NRG's then existing financial resources. See "Risk Factors Risks related to the notes We may not have the ability to raise the funds necessary to finance the change of control offer required by the indenture governing the notes."

***Selection and notice***

If less than all of the notes are to be redeemed at any time, the trustee for the notes will select notes for redemption on a pro rata basis unless otherwise required by law or applicable stock exchange requirements.

No notes of \$2,000 or less can be redeemed in part. Notices of redemption will be mailed by first class mail at least 30 but not more than 60 days before the redemption date to each holder of notes to be redeemed at its registered address, except that redemption notices may be mailed more than 60 days prior to a redemption date if the notice is issued in connection with a defeasance of the notes or a

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satisfaction and discharge of the indenture. Any redemption notice may, in NRG's discretion, be subject to the satisfaction of one or more conditions precedent.

If any note is to be redeemed in part only, the notice of redemption that relates to that note will state the portion of the principal amount of that note that is to be redeemed. A new note in principal amount equal to the unredeemed portion of the original note will be issued in the name of the holder of notes upon cancellation of the original note. Notes called for redemption become due on the date fixed for redemption. On and after the redemption date, interest ceases to accrue on notes or portions of them called for redemption.

**Certain covenants**

***Changes in covenants when notes rated investment grade***

If on any date following the Issue Date:

(1) the rating assigned to the notes by each of S&P and Moody's is an Investment Grade Rating; and

(2) no Default or Event of Default shall have occurred and be continuing, then, beginning on that day and subject to the provisions of the following two paragraphs, the covenants in the indenture specifically listed under the following captions will be suspended as to the notes issued under such indenture:

(a) " Repurchase at the option of holders Asset sales;"

(b) " Certain covenants Restricted payments;"

(c) " Certain covenants Incurrence of indebtedness and issuance of preferred stock;"

(d) " Certain covenants Dividend and other payment restrictions affecting subsidiaries;"

(e) " Certain covenants Designation of restricted, unrestricted and excluded project subsidiaries;"

(f) " Certain covenants Transactions with affiliates;" and

(g) clause (4) of the covenant described below under the caption " Certain covenants Merger, consolidation or sale of assets."

Clauses (a) through (g) above are collectively referred to as the "Suspended Covenants."

During any period that the foregoing covenants have been suspended, NRG may not designate any of its Subsidiaries as Unrestricted Subsidiaries or Excluded Project Subsidiaries pursuant to the covenant described below under the caption " Designation of restricted, unrestricted and excluded project subsidiaries," the second paragraph of the definition of "Unrestricted Subsidiary," or the definition of "Excluded Project Subsidiary," unless it could do so if the foregoing covenants were in effect.

If at any time such notes are downgraded from an Investment Grade Rating by either S&P or Moody's, the Suspended Covenants will thereafter be reinstated as if such covenants had never been suspended and be applicable pursuant to the terms of the indenture (including in connection with performing any calculation or assessment to determine compliance with the terms of the indenture), unless and until the notes subsequently attain an Investment Grade Rating from each of S&P and Moody's (in which event the Suspended Covenants will again be suspended for such time that the notes maintain an Investment Grade Rating from each of S&P and Moody's); *provided, however*, that no Default, Event of Default or breach of any kind will be deemed to exist under the indenture, the notes



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or the related Subsidiary Guarantees with respect to the Suspended Covenants based on, and none of NRG or any of its Subsidiaries will bear any liability under the indenture, the notes or the related Subsidiary Guarantees with respect to the Suspended Covenants for, any actions taken or events occurring after such notes attain an Investment Grade Rating from each of S&P and Moody's and before any reinstatement of the Suspended Covenants as provided above, or any actions taken at any time pursuant to any contractual obligation arising prior to the reinstatement, regardless of whether those actions or events would have been permitted if the applicable Suspended Covenant had remained in effect during such period.

**Restricted payments**

NRG will not, and will not permit any of its Restricted Subsidiaries to, directly or indirectly:

(1) declare or pay any dividend or make any other payment or distribution on account of NRG's or any of its Restricted Subsidiaries' Equity Interests (including, without limitation, any payment in connection with any merger or consolidation involving NRG or any of its Restricted Subsidiaries) or to the direct or indirect holders of NRG's or any of its Restricted Subsidiaries' Equity Interests in their capacity as such (other than dividends or distributions payable in Equity Interests (other than Disqualified Stock) of NRG or to NRG or a Restricted Subsidiary of NRG);

(2) purchase, redeem or otherwise acquire or retire for value (including, without limitation, in connection with any merger or consolidation involving NRG) any Equity Interests of NRG or any direct or indirect parent of NRG (other than any such Equity Interests owned by NRG or any Restricted Subsidiary of NRG);

(3) make any payment on or with respect to, or purchase, redeem, defease or otherwise acquire or retire for value any Indebtedness of NRG or any Guarantor that is contractually subordinated to the notes or any Subsidiary Guarantee of the notes (excluding any intercompany Indebtedness between or among NRG and any of its Restricted Subsidiaries), except (a) a payment of interest or principal at the Stated Maturity thereof or (b) a payment, purchase, redemption, defeasance, acquisition or retirement of any subordinated Indebtedness in anticipation of satisfying a sinking fund obligation, principal installment or payment at final maturity, in each case due within one year of the date of payment, purchase, redemption, defeasance, acquisition or retirement; or

(4) make any Restricted Investment (all such payments and other actions set forth in these clauses (1) through (4) above being collectively referred to as "*Restricted Payments*"), unless, at the time of and after giving effect to such Restricted Payment:

(1) no Default or Event of Default has occurred and is continuing or would occur as a consequence of such Restricted Payment;

(2) on a pro forma basis after giving effect to such Restricted Payment and any transaction related thereto, the Debt to Cash Flow Ratio would not have exceeded 5.75 to 1.0; and

(3) such Restricted Payment, together with the aggregate amount of all other Restricted Payments made by NRG and its Restricted Subsidiaries since the Original Issue Date (excluding Restricted Payments permitted by clauses (2), (3), (4), (6), (7), (8), (9), (10) and (11) of the next succeeding paragraph), is less than the sum, without duplication, of:

(a) Consolidated Cash Flow of NRG, *minus* 140% of Consolidated Interest Expense of NRG, in each case for the period (taken as one accounting period) from March 31, 2009 to the end of NRG's most recently ended fiscal quarter for which financial statements are publicly available at the time of such Restricted Payment, *plus*

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(b) 100% of the fair market value of any property or assets and the aggregate net cash proceeds in each case received by NRG or any of its Restricted Subsidiaries since the Original Issue Date in exchange for Qualifying Equity Interests or from the issue or sale of Qualifying Equity Interests (other than Disqualified Stock) or from the issue or sale of convertible or exchangeable Disqualified Stock or convertible or exchangeable debt securities of NRG that have been converted into or exchanged for such Qualifying Equity Interests (other than Qualifying Equity Interests (or Disqualified Stock or debt securities) sold to a Subsidiary of NRG), *plus*

(c) to the extent that any Restricted Investment that was made after February 2, 2006 is sold for cash or otherwise liquidated or repaid for cash after the Original Issue Date, the cash return with respect to such Restricted Investment (less the cost of disposition, if any) to the extent not already included in the Consolidated Cash Flow of NRG since the Original Issue Date, *plus*

(d) 100% of any cash received by NRG or a Restricted Subsidiary of NRG after the Original Issue Date from an Unrestricted Subsidiary of NRG, to the extent that such cash was not otherwise included in Consolidated Cash Flow of NRG for such period, *plus*

(e) to the extent that any Unrestricted Subsidiary of NRG is redesignated as a Restricted Subsidiary after the Original Issue Date, the fair market value of NRG's Investment in such Subsidiary as of the date of such redesignation.

The preceding provisions will not prohibit:

(1) the payment of any dividend within 90 days after the date of declaration of the dividend, if at the date of declaration the dividend payment would have complied with the provisions of the indenture;

(2) so long as no Default has occurred and is continuing or would be caused thereby, the making of any Restricted Payment in exchange for, or out of the aggregate proceeds of the substantially concurrent sale (other than to a Subsidiary of NRG) of, Equity Interests of NRG (other than Disqualified Stock) or from the contribution of equity capital (unless such contribution would constitute Disqualified Stock) to NRG; *provided* that the amount of any such proceeds that are utilized for any such Restricted Payment will be excluded from clause (3)(b) of the preceding paragraph;

(3) so long as no Default has occurred and is continuing or would be caused thereby, the defeasance, redemption, repurchase or other acquisition of Indebtedness of NRG or any Guarantor that is contractually subordinated to the notes or to any Subsidiary Guarantee with the proceeds from a substantially concurrent incurrence of Permitted Refinancing Indebtedness;

(4) the payment of any dividend (or, in the case of any partnership or limited liability company, any similar distribution) by a Restricted Subsidiary of NRG to the holders of its Equity Interests on a pro rata basis;

(5) so long as no Default has occurred and is continuing or would be caused thereby, (a) the repurchase, redemption or other acquisition or retirement for value of any Equity Interests of NRG or any Restricted Subsidiary of NRG held by any current or former officer, director or employee of NRG or any of its Restricted Subsidiaries pursuant to any equity subscription agreement, stock option agreement, severance agreement, shareholders' agreement or similar agreement or employee benefit plan or (b) the cancellation of Indebtedness owing to NRG or any of its Restricted Subsidiaries from any current or former officer, director or employee of NRG or any of its Restricted Subsidiaries in connection with a repurchase of Equity Interests of NRG or any of its Restricted Subsidiaries; *provided* that the aggregate price paid for the actions in

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clause (a) may not exceed \$10.0 million in any twelve-month period (with unused amounts in any period being carried over to succeeding periods) and may not exceed \$50.0 million in the aggregate since the Issue Date; *provided, further* that (i) such amount in any calendar year may be increased by the cash proceeds of "key man" life insurance policies received by NRG and its Restricted Subsidiaries after the Issue Date less any amount previously applied to the making of Restricted Payments pursuant to this clause (5) since the Issue Date and (ii) cancellation of the Indebtedness owing to NRG from employees, officers, directors and consultants of NRG or any of its Restricted Subsidiaries in connection with a repurchase of Equity Interests of NRG from such Persons shall be permitted under this clause (5) as if it were a repurchase, redemption, acquisition or retirement for value subject hereto;

(6) the repurchase of Equity Interests in connection with the exercise of stock options to the extent such Equity Interests represent a portion of the exercise price of those stock options and the repurchases of Equity Interests in connection with the withholding of a portion of the Equity Interests granted or awarded to an employee to pay for the taxes payable by such employee upon such grant or award;

(7) so long as no Default has occurred and is continuing or would be caused thereby, the declaration and payment of regularly scheduled or accrued dividends to holders of any class or series of (a) preferred stock outstanding on the Issue Date, (b) Disqualified Stock of NRG or any Restricted Subsidiary of NRG issued on or after the Issue Date in accordance with the terms of the indenture and the Existing Senior Notes or (c) preferred stock issued on or after the Issue Date in accordance with the terms of the indenture and the Existing Senior Notes or, in the event that any of the instruments described in (a) through (c) above have been converted into or exchanged for Qualifying Equity Interests, other Restricted Payments in an amount no greater than and with timing of such payments not earlier than the dividends that would have otherwise been payable on such instruments;

(8) payments to holders of NRG's Capital Stock in lieu of the issuance of fractional shares of its Capital Stock;

(9) the purchase, redemption, acquisition, cancellation or other retirement for a nominal value per right of any rights granted to all the holders of Capital Stock of NRG pursuant to any shareholders' rights plan adopted for the purpose of protecting shareholders from unfair takeover tactics; *provided* that any such purchase, redemption, acquisition, cancellation or other retirement of such rights is not for the purpose of evading the limitations of this covenant (all as determined in good faith by a senior financial officer of NRG);

(10) so long as no Default has occurred and is continuing or would be caused thereby, upon the occurrence of a Change of Control Triggering Event or Asset Sale and after the completion of the offer to repurchase the notes as described above under the caption " Repurchase at the option of holders Change of control triggering event" or " Repurchase at the option of holders Asset sales," as applicable (including the purchase of all notes tendered), any purchase, defeasance, retirement, redemption or other acquisition of Indebtedness that is contractually subordinated to the notes or any subsidiary guarantee required under the terms of such Indebtedness, or any Disqualified Stock, with, in the case of an Asset Sale, Net Proceeds, as a result of such Change of Control Triggering Event or Asset Sale; and

(11) so long as no Default has occurred and is continuing or would be caused thereby, other Restricted Payments since the Issue Date in an aggregate amount not to exceed the amount available as of the Issue Date for Restricted Payments under Section 4.07(b)(12) of the Existing Indenture.

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As of March 31, 2014, approximately \$7,131 million would have been available for Restricted Payments pursuant to clause (3) of the second paragraph above and there was no availability for Restricted Payments pursuant to clause (11) above.

The amount of all Restricted Payments (other than cash) will be the fair market value on the date of the Restricted Payment of the asset(s) or securities proposed to be transferred or issued by NRG or such Restricted Subsidiary, as the case may be, pursuant to the Restricted Payment. The fair market value of any assets or securities that are required to be valued by this covenant will be determined by a senior financial officer of NRG whose certification with respect thereto will be delivered to the trustee.

**Incurrence of indebtedness and issuance of preferred stock**

NRG will not, and will not permit any of its Restricted Subsidiaries to, directly or indirectly, create, incur, issue, assume, guarantee or otherwise become directly or indirectly liable, contingently or otherwise, with respect to (collectively, "incur") any Indebtedness (including Acquired Debt), and NRG will not issue any Disqualified Stock and will not permit any of its Restricted Subsidiaries to issue any shares of preferred stock; *provided, however*, that NRG may incur Indebtedness (including Acquired Debt) or issue Disqualified Stock, and any Restricted Subsidiary may incur Indebtedness (including Acquired Debt) or issue preferred stock, if the Fixed Charge Coverage Ratio for NRG's most recently ended four full fiscal quarters for which financial statements are publicly available immediately preceding the date on which such additional Indebtedness is incurred or such Disqualified Stock or preferred stock is issued would have been at least 2.0 to 1, determined on a pro forma basis (including a pro forma application of the net proceeds therefrom), as if the additional Indebtedness (including Acquired Debt) had been incurred or Disqualified Stock or the preferred stock had been issued, as the case may be, at the beginning of such four-quarter period.

The first paragraph of this covenant will not prohibit the incurrence of any of the following items of Indebtedness (collectively, "*Permitted Debt*"):

- (1) the incurrence by NRG and PMI (and the guarantee thereof by the Guarantors) of additional Indebtedness and letters of credit under Credit Facilities in an aggregate principal amount at any one time outstanding under this clause (1) (with letters of credit being deemed to have a principal amount equal to the maximum potential liability of NRG and its Restricted Subsidiaries thereunder) not to exceed \$6.0 billion less the aggregate amount of all repayments, optional or mandatory, of the principal of any term Indebtedness under a Credit Facility that have been made by NRG or any of its Restricted Subsidiaries since the Issue Date with the Net Proceeds of Asset Sales (other than Excluded Proceeds) and less, without duplication, the aggregate amount of all repayments or commitment reductions with respect to any revolving credit borrowings under a Credit Facility that have been made by NRG or any of its Restricted Subsidiaries since the Issue Date as a result of the application of the Net Proceeds of Asset Sales (other than Excluded Proceeds), in each case in accordance with the covenant described above under the caption " Repurchase at the option of holders Asset sales" (excluding temporary reductions in revolving credit borrowings as contemplated by that covenant);
- (2) the incurrence by NRG and its Restricted Subsidiaries of the Existing Indebtedness;
- (3) the incurrence by NRG and the Guarantors of Indebtedness represented by the notes and the related Subsidiary Guarantees to be issued on the Issue Date and the Exchange Notes and the related Subsidiary Guarantees to be issued pursuant to the registration rights agreement;
- (4) the incurrence by NRG or any of its Restricted Subsidiaries of Indebtedness represented by Capital Lease Obligations, mortgage financings or purchase money obligations, in each case, incurred for the purpose of financing all or any part of the purchase price or cost of design, construction, installation or improvement or lease of property (real or personal), plant or

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equipment used or useful in the business of NRG or any of its Restricted Subsidiaries or incurred within 180 days thereafter, in an aggregate principal amount, including all Permitted Refinancing Indebtedness incurred to refund, refinance, replace, defease or discharge any Indebtedness incurred pursuant to this clause (4), not to exceed at any time outstanding 5.0% of Total Assets;

(5) the incurrence by NRG or any of its Restricted Subsidiaries of Permitted Refinancing Indebtedness in exchange for, or the net proceeds of which are used to refund, refinance, replace, defease or discharge Indebtedness (other than intercompany Indebtedness) that was permitted by the indenture to be incurred under the first paragraph of this covenant or clauses (2), (3), (4), (5), (15), (16), (17), (18), (19) and (21) of this paragraph;

(6) the incurrence by NRG or any of its Restricted Subsidiaries of intercompany Indebtedness between or among NRG and any of its Restricted Subsidiaries; *provided, however*, that:

(a) if NRG or any Guarantor is the obligor on such Indebtedness and the payee is not NRG or a Guarantor, such Indebtedness must be expressly subordinated to the prior payment in full in cash of all Obligations then due with respect to the notes, in the case of NRG, or the Subsidiary Guarantee, in the case of a Guarantor; and

(b) (i) any subsequent issuance or transfer of Equity Interests that results in any such Indebtedness being held by a Person other than NRG or a Restricted Subsidiary of NRG and (ii) any sale or other transfer of any such Indebtedness to a Person that is not either NRG or a Restricted Subsidiary of NRG, will be deemed, in each case, to constitute an incurrence of such Indebtedness by NRG or such Restricted Subsidiary, as the case may be, that was not permitted by this clause (6);

(7) the issuance by any of NRG's Restricted Subsidiaries to NRG or to any of its Restricted Subsidiaries of shares of preferred stock; *provided, however*, that:

(a) any subsequent issuance or transfer of Equity Interests that results in any such preferred stock being held by a Person other than NRG or a Restricted Subsidiary of NRG; and

(b) any sale or other transfer of any such preferred stock to a Person that is not either NRG or a Restricted Subsidiary of NRG, will be deemed, in each case, to constitute an issuance of such preferred stock by such Restricted Subsidiary that was not permitted by this clause (7);

(8) the incurrence by NRG or any of its Restricted Subsidiaries of Hedging Obligations;

(9) the guarantee by (i) NRG or any of the Guarantors of Indebtedness of NRG or a Guarantor that was permitted to be incurred by another provision of this covenant; (ii) any of the Excluded Project Subsidiaries of Indebtedness of any other Excluded Project Subsidiary; and (iii) any of the Excluded Foreign Subsidiaries of Indebtedness of any other Excluded Foreign Subsidiary; *provided* that if the Indebtedness being guaranteed is subordinated to or *pari passu* with the notes, then the guarantee shall be subordinated to the same extent as the Indebtedness guaranteed;

(10) the incurrence by NRG or any of its Restricted Subsidiaries of Indebtedness arising from the honoring by a bank or other financial institution of a check, draft or similar instrument (except in the case of daylight overdrafts) inadvertently drawn against insufficient funds in the ordinary course of business, so long as such Indebtedness is covered within five business days;

(11) the incurrence by NRG or any of its Restricted Subsidiaries of Indebtedness in respect of (i) workers' compensation claims, self-insurance obligations, bankers' acceptance and

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(ii) performance and surety bonds provided by NRG or a Restricted Subsidiary in the ordinary course of business;

(12) the incurrence of Non-Recourse Debt by any Excluded Project Subsidiary;

(13) the incurrence of Indebtedness that may be deemed to arise as a result of agreements of NRG or any Restricted Subsidiary of NRG providing for indemnification, adjustment of purchase price or any similar obligations, in each case, incurred in connection with the disposition of any business, assets or Equity Interests of any Subsidiary; *provided* that the aggregate maximum liability associated with such provisions may not exceed the gross proceeds (including non-cash proceeds) of such disposition;

(14) the incurrence by NRG or any Restricted Subsidiary of NRG of Indebtedness represented by letters of credit, guarantees or other similar instruments supporting Hedging Obligations of NRG or any of its Restricted Subsidiaries (other than Excluded Subsidiaries) permitted to be incurred by the indenture;

(15) Indebtedness, Disqualified Stock or preferred stock of Persons or assets that are acquired by NRG or any Restricted Subsidiary of NRG or merged into NRG or a Restricted Subsidiary of NRG in accordance with the terms of the indenture; *provided* that such Indebtedness, Disqualified Stock or preferred stock is not incurred in contemplation of such acquisition or merger; and *provided further* that after giving effect to such acquisition or merger, either:

(a) NRG would be permitted to incur at least \$1.00 of additional Indebtedness pursuant to the Fixed Charge Coverage Ratio test set forth in the first sentence of this covenant; or

(b) the Fixed Charge Coverage Ratio would be greater than immediately prior to such acquisition or merger;

(16) Environmental CapEx Debt; *provided*, that prior to the incurrence of any Environmental CapEx Debt, NRG shall deliver to the trustee an officers' certificate designating such Indebtedness as Environmental CapEx Debt;

(17) Indebtedness incurred to finance Necessary Capital Expenditures; *provided*, that prior to the incurrence of any Indebtedness to finance Necessary Capital Expenditures, NRG shall deliver to the trustee an officers' certificate designating such Indebtedness as Necessary CapEx Debt;

(18) Indebtedness of NRG or any Restricted Subsidiary consisting of (i) the financing of insurance premiums or (ii) take-or-pay obligations contained in supply arrangements, in each case, in the ordinary course of business;

(19) the incurrence by NRG or any of its Restricted Subsidiaries of Contribution Indebtedness;

(20) the incurrence by NRG and/or any of its Restricted Subsidiaries of Indebtedness that constitutes a Permitted Tax Lease; and

(21) the incurrence by NRG and/or any of its Restricted Subsidiaries of additional Indebtedness in an aggregate principal amount (or accreted value, as applicable) at any time outstanding, including all Permitted Refinancing Indebtedness incurred to refund, refinance, replace, defease or discharge any Indebtedness incurred pursuant to this clause (21), not to exceed \$1.0 billion.

For purposes of determining compliance with this "Incurrence of indebtedness and issuance of preferred stock" covenant, in the event that an item of proposed Indebtedness meets the criteria of more than one of the categories of Permitted Debt described in clauses (1) through (21) above, or is entitled to be incurred pursuant to the first paragraph of this covenant, NRG will be permitted to

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classify such item of Indebtedness on the date of its incurrence, or later reclassify all or a portion of such item of Indebtedness, in any manner that complies with this covenant. Indebtedness under the Credit Agreement outstanding on the Issue Date will initially be deemed to have been incurred on such date in reliance on the exception provided by clause (1) of the definition of Permitted Debt. The accrual of interest, the accretion or amortization of original issue discount, the payment of interest on any Indebtedness in the form of additional Indebtedness with the same terms, and the payment of dividends on Disqualified Stock in the form of additional shares of the same class of Disqualified Stock will not be deemed to be an incurrence of Indebtedness or an issuance of Disqualified Stock for purposes of this covenant; *provided*, in each such case, that the amount thereof is included in Fixed Charges of NRG as accrued.

For purposes of determining compliance with any U.S. dollar-denominated restriction on the incurrence of Indebtedness, the U.S. dollar-equivalent principal amount of Indebtedness denominated in a foreign currency will be calculated based on the relevant currency exchange rate in effect on the date such Indebtedness was incurred; *provided* that if such Indebtedness is incurred to refinance other Indebtedness denominated in a foreign currency, and such refinancing would cause the applicable U.S. dollar-denominated restriction to be exceeded if calculated at the relevant currency exchange rate in effect on the date of such refinancing, such U.S. dollar-denominated restriction shall be deemed not to have been exceeded so long as the principal amount of such refinancing Indebtedness does not exceed the principal amount of the Indebtedness being refinanced.

The amount of any Indebtedness outstanding as of any date will be:

- (1) the accreted value of the Indebtedness, in the case of any Indebtedness issued with original issue discount;
- (2) the principal amount of the Indebtedness, in the case of any other Indebtedness; and
- (3) in respect of Indebtedness of another Person secured by a Lien on the assets of the specified Person, the lesser of:
  - (a) the fair market value of such asset at the date of determination, and
  - (b) the amount of the Indebtedness of the other Person;

*provided* that any changes in any of the above shall not give rise to a default under this covenant.

**Antilayering**

NRG will not incur, and will not permit any Guarantor to incur, any Indebtedness (including Permitted Debt) that is contractually subordinated in right of payment to any other Indebtedness of NRG or such Guarantor unless such Indebtedness is also contractually subordinated in right of payment to the notes and the applicable Guarantee on substantially identical terms; *provided, however*, that no Indebtedness will be deemed to be contractually subordinated in right of payment to any other Indebtedness of NRG solely by virtue of being unsecured or by virtue of being secured on a first or junior Lien basis.

**Liens**

NRG will not and will not permit any of its Restricted Subsidiaries to, create, incur, assume or otherwise cause or suffer to exist or become effective any Lien of any kind (other than Permitted Liens) securing Indebtedness or Attributable Debt upon any of their property or assets, now owned or hereafter acquired, unless all payments due under the indenture and the notes issued thereunder are secured on an equal and ratable basis with the obligations so secured until such time as such obligations are no longer secured by a Lien.

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**Sale and leaseback transactions**

NRG will not, and will not permit any of its Restricted Subsidiaries to, enter into any sale and leaseback transaction (other than a Permitted Tax Lease, which shall not be restricted by this covenant); *provided* that NRG or any Guarantor may enter into a sale and leaseback transaction if:

(1) NRG or that Guarantor, as applicable, could have (a) incurred Indebtedness in an amount equal to the Attributable Debt relating to such sale and leaseback transaction under the covenant described above under the caption " Incurrence of indebtedness and issuance of preferred stock" and (b) incurred a Lien to secure such Indebtedness pursuant to the covenant described above under the caption " Liens";

(2) the gross proceeds of that sale and leaseback transaction are at least equal to the fair market value of the property that is subject of that sale and leaseback transaction, as determined in good faith by a senior financial officer of NRG; and

(3) if such sale and leaseback transaction constitutes an Asset Sale, the transfer of assets in that sale and leaseback transaction is permitted by, and NRG applies the proceeds of such transaction in compliance with, the covenant described above under the caption " Repurchase at the option of holders Asset sales."

**Dividend and other payment restrictions affecting subsidiaries**

NRG will not, and will not permit any of its Restricted Subsidiaries (other than Excluded Subsidiaries) to, directly or indirectly, create or permit to exist or become effective any consensual encumbrance or restriction on the ability of any Restricted Subsidiaries (other than Excluded Subsidiaries) to:

(1) pay dividends or make any other distributions on its Capital Stock to NRG or any of its Restricted Subsidiaries (other than Excluded Subsidiaries), or with respect to any other interest or participation in, or measured by, its profits, or pay any indebtedness owed to NRG or any of its Restricted Subsidiaries (other than Excluded Subsidiaries);

(2) make loans or advances to NRG or any of its Restricted Subsidiaries (other than Excluded Subsidiaries); or

(3) transfer any of its properties or assets to NRG or any of its Restricted Subsidiaries (other than Excluded Subsidiaries).

However, the preceding restrictions will not apply to encumbrances or restrictions existing under or by reason of:

(1) the Credit Agreement and other agreements governing Existing Indebtedness, on the Issue Date;

(2) the indentures, the notes and the Subsidiary Guarantees (including the Exchange Notes and related Subsidiary Guarantees);

(3) applicable law, rule, regulation or order;

(4) customary non-assignment provisions in contracts, agreements, leases, permits and licenses;

(5) purchase money obligations for property acquired and Capital Lease Obligations that impose restrictions on the property purchased or leased of the nature described in clause (3) of the preceding paragraph;



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- (6) any agreement for the sale or other disposition of the stock or assets of a Restricted Subsidiary that restricts distributions by that Restricted Subsidiary pending the sale or other disposition;
- (7) Permitted Refinancing Indebtedness; *provided* that the restrictions contained in the agreements governing such Permitted Refinancing Indebtedness are not materially more restrictive, taken as a whole, than those contained in the agreements governing the Indebtedness being refinanced;
- (8) Liens permitted to be incurred under the provisions of the covenant described above under the caption " Liens" and associated agreements that limit the right of the debtor to dispose of the assets subject to such Liens;
- (9) provisions limiting the disposition or distribution of assets or property in joint venture, partnership, membership, stockholder and limited liability company agreements, asset sale agreements, sale-leaseback agreements, stock sale agreements and other similar agreements, including owners', participation or similar agreements governing projects owned through an undivided interest, which limitation is applicable only to the assets that are the subject of such agreements;
- (10) restrictions on cash or other deposits or net worth imposed by customers under contracts entered into in connection with a Permitted Business;
- (11) restrictions or conditions contained in any trading, netting, operating, construction, service, supply, purchase, sale or similar agreement to which NRG or any Restricted Subsidiary of NRG is a party entered into in connection with a Permitted Business; *provided* that such agreement prohibits the encumbrance of solely the property or assets of NRG or such Restricted Subsidiary that are the subject of that agreement, the payment rights arising thereunder and/or the proceeds thereof and not to any other asset or property of NRG or such Restricted Subsidiary or the assets or property of any other Restricted Subsidiary;
- (12) any instrument governing Indebtedness or Capital Stock of a Person acquired by NRG or any of its Restricted Subsidiaries as in effect at the time of such acquisition (except to the extent such Indebtedness or Capital Stock was incurred in connection with or in contemplation of such acquisition), which encumbrance or restriction is not applicable to any Person, or the properties or assets of any Person, other than the Person, or the property or assets of the Person, so acquired; *provided* that, in the case of Indebtedness, such Indebtedness was permitted by the terms of the indenture to be incurred;
- (13) Indebtedness of a Restricted Subsidiary of NRG existing at the time it became a Restricted Subsidiary if such restriction was not created in connection with or in anticipation of the transaction or series of transactions pursuant to which such Restricted Subsidiary became a Restricted Subsidiary or was acquired by NRG;
- (14) with respect to clause (3) of the first paragraph of this covenant only, restrictions encumbering property at the time such property was acquired by NRG or any of its Restricted Subsidiaries, so long as such restriction relates solely to the property so acquired and was not created in connection with or in anticipation of such acquisition;
- (15) provisions limiting the disposition or distribution of assets or property in agreements governing Non-Recourse Debt, which limitation is applicable only to the assets that are the subject of such agreements; and
- (16) any encumbrance or restrictions of the type referred to in clauses (1), (2) and (3) of the first paragraph of this covenant imposed by any amendments, modifications, restatements, renewals, increases, supplements, refundings, replacements or refinancings of the contracts,

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instruments or obligations referred to in clauses (1) through (15) above; *provided* that such amendments, modifications, restatements, renewals, increases, supplements, refundings, replacements or refinancings are, in the good faith judgment of a senior financial officer of NRG, no more restrictive with respect to such dividend and other payment restrictions than those contained in the dividend or other payment restrictions prior to such amendment, modification, restatement, renewals, increase, supplement, refunding, replacement or refinancing.

**Merger, consolidation or sale of assets**

NRG may not, directly or indirectly: (1) consolidate or merge with or into another Person (whether or not NRG is the surviving corporation); or (2) sell, assign, transfer, convey or otherwise dispose of all or substantially all of the properties or assets of NRG and its Restricted Subsidiaries taken as a whole, in one or more related transactions, to another Person; unless:

(1) either: (a) NRG is the surviving corporation; or (b) the Person formed by or surviving any such consolidation or merger (if other than NRG) or to which such sale, assignment, transfer, conveyance or other disposition has been made is a corporation, partnership or limited liability company organized or existing under the laws of the United States, any state of the United States or the District of Columbia; *provided* that if the Person is a partnership or limited liability company, then a corporation wholly-owned by such Person organized or existing under the laws of the United States, any state of the United States or the District of Columbia that does not and will not have any material assets or operations shall become a co-issuer of the notes pursuant to supplemental indentures duly executed by the applicable trustee;

(2) the Person formed by or surviving any such consolidation or merger (if other than NRG) or the Person to which such sale, assignment, transfer, conveyance or other disposition has been made assumes all the obligations of NRG under the notes, the registration rights agreement and the indenture pursuant to supplemental indentures or other documents and agreements reasonably satisfactory to the trustee;

(3) immediately after such transaction, no Default or Event of Default exists; and

(4) (i) NRG or the Person formed by or surviving any such consolidation or merger (if other than NRG), or to which such sale, assignment, transfer, conveyance or other disposition has been made will, on the date of such transaction after giving pro forma effect thereto and any related financing transactions as if the same had occurred at the beginning of the applicable four-quarter period, be permitted to incur at least \$1.00 of additional Indebtedness pursuant to the Fixed Charge Coverage Ratio test set forth in the first paragraph of the covenant described above under the caption " Incurrence of indebtedness and issuance of preferred stock" or (ii) the Fixed Charge Coverage Ratio of NRG or the Person formed by or surviving any such consolidation or merger (if other than NRG) is greater after giving pro forma effect to such consolidation or merger and any related financing transactions as if the same had occurred at the beginning of the applicable four-quarter period than NRG's actual Fixed Charge Coverage Ratio for the period.

In addition, NRG may not, directly or indirectly, lease all or substantially all of its properties or assets, in one or more related transactions, to any other Person.

This "Merger, consolidation or sale of assets" covenant will not apply to:

(1) a merger of NRG with an Affiliate solely for the purpose of reincorporating NRG in another jurisdiction or forming a direct holding company of NRG; and

(2) any sale, transfer, assignment, conveyance, lease or other disposition of assets between or among NRG and its Restricted Subsidiaries, including by way of merger or consolidation.

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**Transactions with affiliates**

NRG will not, and will not permit any of its Restricted Subsidiaries to, make any payment to, or sell, lease, transfer or otherwise dispose of any of its properties or assets to, or purchase any property or assets from, or enter into or make or amend any transaction, contract, agreement, understanding, loan, advance or guarantee with, or for the benefit of, any Affiliate of NRG (each, an "*Affiliate Transaction*") involving aggregate payments in excess of \$10.0 million, unless:

(1) the Affiliate Transaction is on terms that are no less favorable to NRG (as reasonably determined by NRG) or the relevant Restricted Subsidiary than those that would have been obtained in a comparable transaction by NRG or such Restricted Subsidiary with an unrelated Person; and

(2) NRG delivers to the trustee:

(a) with respect to any Affiliate Transaction or series of related Affiliate Transactions involving aggregate consideration in excess of \$75.0 million, a resolution of the Board of Directors set forth in an officers' certificate certifying that such Affiliate Transaction complies with this covenant and that such Affiliate Transaction has been approved by a majority of the disinterested members of the Board of Directors; and

(b) with respect to any Affiliate Transaction or series of related Affiliate Transactions involving aggregate consideration in excess of \$150.0 million, an opinion as to the fairness to NRG or such Restricted Subsidiary of such Affiliate Transaction from a financial point of view issued by an Independent Financial Advisor.

The following items will not be deemed to be Affiliate Transactions and, therefore, will not be subject to the provisions of the prior paragraph:

(1) any employment agreement or director's engagement agreement, employee benefit plan, officer and director indemnification agreement or any similar arrangement entered into by NRG or any of its Restricted Subsidiaries or approved by a Responsible Officer of NRG in good faith;

(2) transactions between or among NRG and/or its Restricted Subsidiaries;

(3) transactions with a Person (other than an Unrestricted Subsidiary of NRG) that is an Affiliate of NRG solely because NRG owns, directly or through a Restricted Subsidiary, an Equity Interest in, or controls, such Person;

(4) payment of directors' fees;

(5) any issuance of Equity Interests (other than Disqualified Stock) of NRG or its Restricted Subsidiaries;

(6) Restricted Payments that do not violate the provisions of the indenture described above under the caption " Restricted payments";

(7) any agreement in effect as of the Issue Date or any amendment thereto or replacement thereof and any transaction contemplated thereby or permitted thereunder, so long as any such amendment or replacement agreement taken as a whole is not more disadvantageous to the holders of the notes than the original agreement as in effect on the Issue Date;

(8) payments or advances to employees or consultants that are incurred in the ordinary course of business or that are approved by a Responsible Officer of NRG in good faith;

(9) the existence of, or the performance by NRG or any of its Restricted Subsidiaries of its obligations under the terms of, any stockholders agreement (including any registration rights agreement or purchase agreement related thereto) to which it is a party as of the Issue Date and

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any similar agreements which it may enter into thereafter; *provided, however*, that the existence of, or the performance by NRG or any of its Restricted Subsidiaries of obligations under, any future amendment to any such existing agreement or under any similar agreement entered into after the Issue Date shall only be permitted by this clause (9) to the extent that the terms of any such amendment or new agreement are not otherwise more disadvantageous to the holders of the notes in any material respect;

(10) transactions permitted by, and complying with, the provisions of the covenant described under " Merger, consolidation or sale of assets";

(11) transactions with customers, clients, suppliers, joint venture partners or purchasers or sellers of goods or services (including pursuant to joint venture agreements) in compliance with the terms of the indenture that are fair to NRG and its Restricted Subsidiaries, in the reasonable determination of a senior financial officer of NRG, or are on terms not materially less favorable taken as a whole as might reasonably have been obtained at such time from an unaffiliated party;

(12) any repurchase, redemption or other retirement of Capital Stock of NRG held by employees of NRG or any of its Subsidiaries;

(13) loans or advances to employees or consultants;

(14) any Permitted Investment in another Person involved in a Permitted Business;

(15) transactions in which NRG or any Restricted Subsidiary of NRG, as the case may be, delivers to the trustee a letter from an Independent Financial Advisor stating that such transaction is fair to NRG or such Restricted Subsidiary from a financial point of view or meets the requirements of clause (1) of the preceding paragraph;

(16) the issuance of any letters of credit to support obligations of any Excluded Subsidiary;

(17) transactions between or among Excluded Subsidiaries, and any Guarantee, guarantee and/or other credit support provided by NRG and/or any Restricted Subsidiary in respect of any Subsidiary or any Minority Investment so long as all holders of Equity Interests in such Subsidiary or Minority Investment (including NRG or any Restricted Subsidiary, as applicable) shall participate directly or indirectly in such applicable Guarantee, guarantee and/or other credit support or shall provide a commitment in respect of any related obligation, in each case, on a pro rata basis relative to their Equity Interests in such Minority Investment; *provided* that any such transaction shall be fair and reasonable and beneficial to NRG and its Restricted Subsidiaries (taken as a whole) and consistent with Prudent Industry Practice;

(18) transactions relating to management, marketing, administrative or technical services between NRG and its Restricted Subsidiaries, or between Restricted Subsidiaries;

(19) any tax sharing agreement between or among NRG and its Subsidiaries so long as such tax sharing agreement is on fair and reasonable terms with respect to each participant therein; and

(20) any agreement to do any of the foregoing.

**Additional subsidiary guarantees**

If,

NRG or any of its Restricted Subsidiaries acquires or creates another Domestic Subsidiary (other than an Excluded Subsidiary or a Domestic Subsidiary that does not Guarantee any other Indebtedness of NRG) after the Issue Date,

any Excluded Subsidiary that is a Domestic Subsidiary ceases to be an Excluded Subsidiary after the Issue Date, or

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any Domestic Subsidiary that does not Guarantee any other Indebtedness of NRG subsequently Guarantees other Indebtedness of NRG,

then such newly acquired or created Domestic Subsidiary, former Excluded Subsidiary, or Domestic Subsidiary that subsequently Guarantees other Indebtedness of NRG, as the case may be, will become a Guarantor and execute a supplemental indenture and deliver an opinion of counsel satisfactory to the trustee within 30 business days of the date on which it was acquired or created or ceased to be an Excluded Subsidiary or Guaranteed other Indebtedness of NRG, as the case may be.

**Designation of restricted, unrestricted and excluded project subsidiaries**

NRG may designate, by a certificate executed by a Responsible Officer of NRG, any Restricted Subsidiary to be an Unrestricted Subsidiary if that designation would not cause a Default. If a Restricted Subsidiary is designated as an Unrestricted Subsidiary, the aggregate fair market value of all outstanding Investments owned by NRG and its Restricted Subsidiaries in the Subsidiary designated as Unrestricted will be deemed to be an Investment made as of the time of the designation and will reduce the amount available for Restricted Payments under the covenant described above under the caption " Restricted payments" or under one or more clauses of the definition of Permitted Investments, as determined by NRG. That designation will only be permitted if the Investment would be permitted at that time and if the Restricted Subsidiary otherwise meets the definition of an Unrestricted Subsidiary. A Responsible Officer of NRG may redesignate any Unrestricted Subsidiary to be a Restricted Subsidiary if that redesignation would not cause a Default.

NRG may designate, by a certificate executed by a Responsible Officer of NRG, any Restricted Subsidiary to be an Excluded Project Subsidiary if that designation would not cause a Default. If a Restricted Subsidiary that is not an Excluded Project Subsidiary is designated as an Excluded Project Subsidiary, the aggregate fair market value of all outstanding Investments owned by NRG and its Restricted Subsidiaries in the Subsidiary designated as an Excluded Project Subsidiary will be deemed to be an Investment made as of the time of the designation and will reduce the amount available for Restricted Payments under the covenant described above under the caption " Restricted payments" or under one or more clauses of the definition of Permitted Investments, as determined by NRG. That designation will only be permitted if the Investment would be permitted at that time and if the Restricted Subsidiary otherwise meets the definition of an Excluded Project Subsidiary. A Responsible Officer of NRG may redesignate any Excluded Project Subsidiary to be a Restricted Subsidiary that is not an Excluded Project Subsidiary if that redesignation would not cause a Default.

**Reports**

Whether or not required by the Commission's rules and regulations, so long as any notes are outstanding, NRG will furnish to the holders of notes or cause the trustee to furnish to the holders of notes, within the time periods (including any extensions thereof) specified in the Commission's rules and regulations:

- (1) all quarterly and annual reports that would be required to be filed with the Commission on Forms 10-Q and 10-K if NRG were required to file such reports; and
- (2) all current reports that would be required to be filed with the Commission on Form 8-K if NRG were required to file such reports.

All such reports will be prepared in all material respects in accordance with all of the rules and regulations applicable to such reports. Each annual report on Form 10-K will include a report on NRG's consolidated financial statements by NRG's independent registered public accounting firm. In addition, NRG will file a copy of each of the reports referred to in clauses (1) and (2) above with the Commission for public availability within the time periods specified in the rules and regulations

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applicable to such reports (unless the Commission will not accept such a filing). To the extent such filings are made, the reports will be deemed to be furnished to the trustee and holders of notes.

If NRG is no longer subject to the periodic reporting requirements of the Exchange Act for any reason, NRG will nevertheless continue filing the reports specified in the preceding paragraph with the Commission within the time periods specified above unless the Commission will not accept such a filing. NRG agrees that it will not take any action for the purpose of causing the Commission not to accept any such filings. If, notwithstanding the foregoing, the Commission will not accept NRG's filings for any reason, NRG will post the reports referred to in the preceding paragraph on its website within the time periods that would apply if NRG were required to file those reports with the Commission.

In addition, NRG and the Guarantors agree that, for so long as any notes remain outstanding, at any time they are not required to file the reports required by the preceding paragraphs with the Commission, they will furnish to the holders and to securities analysts and prospective investors, upon their request, the information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act.

**Events of default and remedies**

Each of the following is an Event of Default with respect to the notes:

- (1) default for 30 days in the payment when due of interest on the notes;
- (2) default in payment when due of the principal of, or premium, if any, on the notes;
- (3) failure by NRG or any of its Restricted Subsidiaries for 45 days after written notice given by the trustee or holders, to comply with any of the other agreements in the indenture;
- (4) default under any mortgage, indenture or instrument under which there may be issued or by which there may be secured or evidenced any Indebtedness for money borrowed by NRG or any of its Restricted Subsidiaries (or the payment of which is guaranteed by NRG or any of its Restricted Subsidiaries) whether such Indebtedness or guarantee now exists, or is created after the Issue Date, if that default:
  - (a) is caused by a failure to pay principal of, or interest or premium, if any, on such Indebtedness prior to the expiration of the grace period provided in such Indebtedness on the date of such default (a "*Payment Default*"); or
  - (b) results in the acceleration of such Indebtedness prior to its express maturity,

and, in each case, the principal amount of any such Indebtedness, together with the principal amount of any other such Indebtedness under which there has been a Payment Default or the maturity of which has been so accelerated, aggregates \$150.0 million or more; *provided* that this clause (4) shall not apply to (i) secured Indebtedness that becomes due as a result of the voluntary sale or transfer of the property or assets securing such Indebtedness to a Person that is not an Affiliate of NRG; (ii) Non-Recourse Debt of NRG Peaker Finance Company LLC; and (iii) Non-Recourse Debt of NRG or any of its Subsidiaries (except to the extent that NRG or any of its Restricted Subsidiaries that are not parties to such Non-Recourse Debt becomes directly or indirectly liable, including pursuant to any contingent obligation, for any such Non-Recourse Debt and such liability, individually or in the aggregate, exceeds \$150.0 million);

(5) one or more judgments for the payment of money in an aggregate amount in excess of \$150.0 million (excluding therefrom any amount reasonably expected to be covered by insurance) shall be rendered against NRG, any Restricted Subsidiary of NRG that is not an Excluded Project Subsidiary or any combination thereof and the same shall not have been paid, discharged or stayed for a period of 60 days after such judgment became final and non-appealable;

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(6) except as permitted by the indenture, any Subsidiary Guarantee shall be held in any final and non-appealable judicial proceeding to be unenforceable or invalid or shall cease for any reason to be in full force and effect or any Guarantor (or any group of Guarantors) that constitutes a Significant Subsidiary, or any Person acting on behalf of any Guarantor (or any group of Guarantors) that constitutes a Significant Subsidiary, shall deny or disaffirm its or their obligations under its or their Subsidiary Guarantee(s); and

(7) certain events of bankruptcy or insolvency described in the indenture with respect to NRG or any of its Restricted Subsidiaries (other than the Exempt Subsidiaries) that is a Significant Subsidiary or any group of Restricted Subsidiaries that, taken together, would constitute a Significant Subsidiary.

In the case of an Event of Default with respect to the notes arising from certain events of bankruptcy or insolvency with respect to NRG, any Restricted Subsidiary (other than the Exempt Subsidiaries) that is a Significant Subsidiary or any group of Restricted Subsidiaries that, taken together, would constitute a Significant Subsidiary, all such notes that are outstanding will become due and payable immediately without further action or notice. If any other Event of Default occurs and is continuing, the trustee or the holders of at least 25% in principal amount of such notes that are outstanding may declare all the notes to be due and payable immediately.

Subject to certain limitations, holders of a majority in principal amount of the notes that are then outstanding may direct the trustee in its exercise of any trust or power. The trustee may withhold from holders of the notes notice of any continuing Default or Event of Default if it determines that withholding notice is in their interest, except a Default or Event of Default relating to the payment of principal or interest.

Subject to the provisions of the indenture relating to the duties of the applicable trustee, in case an Event of Default occurs and is continuing under the indenture, the trustee will be under no obligation to exercise any of the rights or powers under the indenture at the request or direction of any holders of the notes unless such holders have offered to the trustee reasonable indemnity or security against any loss, liability or expense. Except to enforce the right to receive payment of principal, premium (if any) or interest when due, no holder of a note may pursue any remedy with respect to the indenture unless:

- (1) such holder has previously given the trustee notice that an Event of Default is continuing;
- (2) holders of at least 25% in aggregate principal amount of the notes that are then outstanding have requested the trustee to pursue the remedy;
- (3) such holders have offered the trustee reasonable security or indemnity against any loss, liability or expense;
- (4) the trustee has not complied with such request within 60 days after the receipt thereof and the offer of security or indemnity; and
- (5) holders of a majority in aggregate principal amount of the notes that are then outstanding have not given the trustee a direction inconsistent with such request within such 60-day period.

The holders of a majority in aggregate principal amount of the notes then outstanding by notice to the trustee may, on behalf of the holders of the notes, rescind an acceleration or waive any existing Default or Event of Default and its consequences under the indenture except a continuing Default or Event of Default in the payment of interest on, or the principal of, such notes.

NRG is required to deliver to the trustee annually a statement regarding compliance with the indenture. Upon becoming aware of any Default or Event of Default, NRG is required to deliver to the trustee a statement specifying such Default or Event of Default.

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**No personal liability of directors, officers, employees and stockholders**

No director, officer, employee, incorporator or stockholder of NRG or any Guarantor, as such, will have any liability for any obligations of NRG or the Guarantors under the notes, the indentures or the Subsidiary Guarantees, or for any claim based on, in respect of, or by reason of, such obligations or their creation. Each holder of notes by accepting a note waives and releases all such liability. The waiver and release are part of the consideration for issuance of the notes. The waiver may not be effective to waive liabilities under the federal securities laws.

**Legal defeasance and covenant defeasance**

NRG may, at its option and at any time, elect to have all of its obligations discharged with respect to the notes that are outstanding and all obligations of the Guarantors of such notes discharged with respect to their Subsidiary Guarantees ("*Legal Defeasance*") except for:

- (1) the rights of holders of the notes that are then outstanding to receive payments in respect of the principal of, or interest or premium on such notes when such payments are due from the trust referred to below;
- (2) NRG's obligations with respect to the notes concerning issuing temporary notes, registration of notes, mutilated, destroyed, lost or stolen notes and the maintenance of an office or agency for payment and money for security payments held in trust;
- (3) the rights, powers, trusts, duties and immunities of the trustee for the notes, and NRG's and the Guarantors' obligations in connection therewith; and
- (4) the Legal Defeasance provisions of the indenture governing such notes.

In addition, NRG may, at its option and at any time, elect to have the obligations of NRG and the Guarantors released with respect to certain covenants (including its obligation to make Change of Control Offers and Asset Sale Offers) that are described in the indenture ("*Covenant Defeasance*") and thereafter any omission to comply with those covenants will not constitute a Default or Event of Default with respect to the notes. In the event Covenant Defeasance occurs, certain events (not including non-payment, bankruptcy, receivership, rehabilitation and insolvency events) described under " Events of default and remedies" will no longer constitute an Event of Default with respect to the notes.

In order to exercise either Legal Defeasance or Covenant Defeasance:

- (1) NRG must irrevocably deposit with the trustee, in trust, for the benefit of the holders of the notes, cash in U.S. dollars, non-callable Government Securities, or a combination of cash in U.S. dollars and non-callable Government Securities, in amounts as will be sufficient, in the opinion of a nationally recognized investment bank, appraisal firm or firm of independent public accountants to pay the principal of, or interest and premium on such notes that are then outstanding on the Stated Maturity or on the applicable redemption date, as the case may be, and NRG must specify whether such notes are being defeased to maturity or to a particular redemption date;
- (2) in the case of Legal Defeasance, NRG has delivered to the trustee an opinion of counsel reasonably acceptable to the trustee confirming that (a) NRG has received from, or there has been published by, the Internal Revenue Service a ruling or (b) since the Issue Date, there has been a change in the applicable federal income tax law, in either case to the effect that, and based thereon such opinion of counsel will confirm that, the holders of the notes that are then outstanding will not recognize income, gain or loss for federal income tax purposes as a result of such Legal Defeasance and will be subject to federal income tax on the same amounts, in the same



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manner and at the same times as would have been the case if such Legal Defeasance had not occurred;

(3) in the case of Covenant Defeasance, NRG has delivered to the trustee an opinion of counsel reasonably acceptable to the trustee confirming that the holders of the notes that are then outstanding will not recognize income, gain or loss for federal income tax purposes as a result of such Covenant Defeasance and will be subject to federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such Covenant Defeasance had not occurred;

(4) no Default or Event of Default with respect to the notes has occurred and is continuing on the date of such deposit (other than a Default or Event of Default resulting from the borrowing of funds to be applied to such deposit);

(5) such Legal Defeasance or Covenant Defeasance will not result in a breach or violation of, or constitute a default under any material agreement or instrument (other than the indenture) to which NRG or any of its Subsidiaries is a party or by which NRG or any of its Subsidiaries is bound;

(6) NRG must deliver to the trustee an officers' certificate stating that the deposit was not made by NRG with the intent of preferring the holders of the notes over the other creditors of NRG with the intent of defeating, hindering, delaying or defrauding creditors of NRG or others; and

(7) NRG must deliver to the trustee an officers' certificate and an opinion of counsel, each stating that all conditions precedent relating to the Legal Defeasance or the Covenant Defeasance have been complied with.

**Amendment, supplement and waiver**

Except as provided in the next two succeeding paragraphs, the indenture or the notes outstanding thereunder may be amended or supplemented with the consent of the holders of at least a majority in principal amount of notes then outstanding (including, without limitation, consents obtained in connection with a purchase of, or tender offer or exchange offer for, the notes), and any existing default or compliance with any provision of the indenture or the notes outstanding thereunder may be waived with the consent of the holders of a majority in principal amount of the notes that are then outstanding (including, without limitation, consents obtained in connection with a purchase of, or tender offer or exchange offer for, the notes).

Without the consent of each holder of notes affected, an amendment or waiver may not (with respect to any such notes held by a non-consenting holder):

(1) reduce the principal amount of such notes whose holders must consent to an amendment, supplement or waiver;

(2) reduce the principal of or change the fixed maturity of any such note or alter the provisions with respect to the redemption of such notes (other than provisions relating to the covenants described above under the caption " Repurchase at the option of holders" and provisions relating to the number of days of notice to be given in the event of a redemption);

(3) reduce the rate of or change the time for payment of interest on any such note;

(4) waive a Default or Event of Default in the payment of principal of, or interest or premium on such notes (except a rescission of acceleration of such notes by the holders of at least a majority in aggregate principal amount of such notes and a waiver of the payment default that resulted from such acceleration);

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- (5) make any such note payable in currency other than that stated in such notes;
- (6) make any change in the provisions of the indenture relating to waivers of past Defaults or the rights of holders of such notes to receive payments of principal of, or interest or premium on such notes;
- (7) waive a redemption payment with respect to any such note (other than a payment required by one of the covenants described above under the caption " Repurchase at the option of holders"); or
- (8) make any change in the preceding amendment and waiver provisions.

Notwithstanding the preceding, without the consent of any holder of notes, NRG, the Guarantors and the trustee may amend or supplement the indenture or the notes:

- (1) to cure any ambiguity, defect or inconsistency;
- (2) to provide for uncertificated notes in addition to or in place of certificated notes;
- (3) to provide for the assumption of NRG's obligations to holders of notes in the case of a merger or consolidation or sale of all or substantially all of NRG's assets;
- (4) to make any change that would provide any additional rights or benefits to the holders of notes or that does not adversely affect the legal rights under any indenture of any such holder;
- (5) to comply with requirements of the Commission in order to effect or maintain the qualification of any indenture under the Trust Indenture Act;
- (6) to conform the text of the indenture or the notes to any provision of the "Description of the Notes" in the Offering Memorandum to the extent that such provision in the "Description of the Notes" was intended to be a verbatim recitation of a provision of the indenture or the notes;
- (7) to evidence and provide for the acceptance and appointment under the indenture of a successor trustee pursuant to the requirements thereof;
- (8) to provide for the issuance of additional notes in accordance with the limitations set forth in the indenture as of the date hereof; or
- (9) to allow any Guarantor to execute a supplemental indenture and/or a Subsidiary Guarantee with respect to the notes.

**Satisfaction and discharge**

The indenture will be discharged and will cease to be of further effect as to all notes issued thereunder, when:

- (1) either:
  - (a) all such notes that have been authenticated, except lost, stolen or destroyed notes that have been replaced or paid and notes for whose payment money has been deposited in trust and thereafter repaid to NRG, have been delivered to the trustee for such notes for cancellation; or
  - (b) all such notes that have not been delivered to the trustee for cancellation have become due and payable by reason of the mailing of a notice of redemption or otherwise or will become due and payable within one year and NRG or any Guarantor has irrevocably deposited or caused to be deposited with the trustee as trust funds in trust solely for the benefit of the holders of notes, cash in U.S. dollars, non-callable Government Securities, or a combination of cash in U.S. dollars and non-callable Government Securities, in amounts as



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will be sufficient, without consideration of any reinvestment of interest, to pay and discharge the entire indebtedness on the notes not delivered to the trustee for cancellation for principal, premium and accrued interest to the date of maturity or redemption;

(2) no Default or Event of Default under such indenture has occurred and is continuing on the date of the deposit (other than a Default or Event of Default resulting from the borrowing of funds to be applied to such deposit) and the deposit will not result in a breach or violation of, or constitute a default under, any other instrument to which NRG or any Guarantor is a party or by which NRG or any Guarantor is bound;

(3) NRG or any Guarantor has paid or caused to be paid all sums payable by it under the indenture; and

(4) NRG has delivered irrevocable instructions to the trustee under the indenture to apply the deposited money toward the payment of the notes at maturity or the redemption date, as the case may be.

In addition, NRG must deliver an officers' certificate and an opinion of counsel to the trustee stating that all conditions precedent to satisfaction and discharge have been satisfied.

**Concerning the trustee**

If the trustee becomes a creditor of NRG or any Guarantor, the indenture limits its right to obtain payment of claims in certain cases, or to realize on certain property received in respect of any such claim as security or otherwise. The trustee will be permitted to engage in other transactions; *however*, if it acquires any conflicting interest it must eliminate such conflict within 90 days, apply to the Commission for permission to continue (if such indenture has been qualified under the Trust Indenture Act) or resign.

The holders of a majority in principal amount of the notes that are outstanding will have the right to direct the time, method and place of conducting any proceeding for exercising any remedy available to the trustee, subject to certain exceptions. The indenture provides that in case an Event of Default occurs and is continuing, the trustee will be required, in the exercise of its power, to use the degree of care of a prudent man in the conduct of his own affairs. Subject to such provisions, the trustee will be under no obligation to exercise any of its rights or powers under the indenture at the request of any holder of notes, unless such holder has offered to the trustee security and indemnity satisfactory to it against any loss, liability or expense.

**Additional information**

Anyone who receives this prospectus may obtain a copy of the indenture and the registration rights agreement without charge by writing to NRG Energy, Inc., 211 Carnegie Center, Princeton, NJ 08540, Attention: Investor Relations.

**Certain definitions**

Set forth below are certain defined terms used in the indentures. Reference is made to the indenture for a full disclosure of all such terms, as well as any other capitalized terms used herein for which no definition is provided.

"*Acquired Debt*" means, with respect to any specified Person:

(1) Indebtedness of any other Person or asset existing at the time such other Person or asset is merged with or into, is acquired by, or became a Subsidiary of such specified Person, as the case may be, whether or not such Indebtedness is incurred in connection with, or in contemplation of,

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such other Person merging with or into, or becoming a Restricted Subsidiary of, such specified Person; and

- (2) Indebtedness secured by a Lien encumbering any asset acquired by such specified Person.

"*Affiliate*" of any specified Person means any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified Person. For purposes of this definition, "control," as used with respect to any Person, means the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of such Person, whether through the ownership of voting securities, by agreement or otherwise; *provided* that beneficial ownership of 10% or more of the Voting Stock of a Person will be deemed to be control. For purposes of this definition, the terms "controlling," "controlled by" and "under common control with" have correlative meanings.

"*Applicable Law*" shall mean, as to any Person, any ordinance, law, treaty, rule or regulation or determination by an arbitrator or a court or other Governmental Authority, including ERCOT, in each case, applicable to or binding on such Person or any of its property or assets or to which such Person or any of its property is subject.

"*Applicable Premium*" means, with respect to any note on any redemption date, the greater of:

- (1) 1.0% of the principal amount of such note; or

- (2) the excess of:

- (A) the present value at such redemption date of (i) the redemption price of such note at July 15, 2018 (such redemption price being set forth in the table appearing above under the caption " Optional redemption") *plus* (ii) all required interest payments due on the note through July 15, 2018 (excluding accrued but unpaid interest to the redemption date), computed using a discount rate equal to the Treasury Rate as of such redemption date plus 50 basis points; over

- (B) the principal amount of the note.

"*Asset Sale*" means:

- (1) the sale, lease (other than an operating lease), conveyance or other disposition of any assets or rights; *provided* that the sale, conveyance or other disposition of all or substantially all of the assets of NRG and its Restricted Subsidiaries taken as a whole will be governed by the provisions of the indenture described above under the caption " Repurchase at the option of holders Change of control triggering event" and/or the provisions described above under the caption " Certain covenants merger, consolidation or sale of assets" and not by the provisions of the covenant described above under the caption " Repurchase at the option of holders Asset sales;" and

- (2) the issuance of Equity Interests in any of NRG's Restricted Subsidiaries or the sale of Equity Interests in any of its Subsidiaries.

Notwithstanding the preceding, none of the following items will be deemed to be an Asset Sale:

- (1) any single transaction or series of related transactions for which NRG or its Restricted Subsidiaries receive aggregate consideration of less than \$100.0 million;

- (2) a transfer of assets or Equity Interests between or among NRG and its Restricted Subsidiaries;

- (3) an issuance of Equity Interests by a Restricted Subsidiary of NRG to NRG or to a Restricted Subsidiary of NRG;

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- (4) the sale or lease of products or services and any sale or other disposition of damaged, worn-out or obsolete assets;
- (5) the sale or discount, in each case without recourse, of accounts receivable, but only in connection with the compromise or collection thereof;
- (6) the licensing of intellectual property;
- (7) the sale, lease, conveyance or other disposition for value of energy, fuel or emission credits or contracts for any of the foregoing;
- (8) the sale or other disposition of cash or Cash Equivalents;
- (9) a Restricted Payment that does not violate the covenant described above under the caption " Certain covenants Restricted payments" or a Permitted Investment;
- (10) to the extent allowable under Section 1031 of the Internal Revenue Code of 1986, any exchange of like property (excluding any "boot" thereon) for use in a Permitted Business;
- (11) a disposition of assets in connection with a foreclosure, transfer or deed in lieu of foreclosure or other exercise of remedial action; and
- (12) any sale and leaseback transaction that is a Permitted Tax Lease.

"*Asset Sale Offer*" has the meaning assigned to that term in the indenture governing the notes.

"*Attributable Debt*" in respect of a sale and leaseback transaction means, at the time of determination, the present value of the obligation of the lessee for net rental payments during the remaining term of the lease included in such sale and leaseback transaction including any period for which such lease has been extended or may, at the option of the lessor, be extended. Such present value shall be calculated using a discount rate equal to the rate of interest implicit in such transaction, determined in accordance with GAAP; *provided, however*, that if such sale and leaseback transaction results in a Capital Lease Obligation, the amount of Indebtedness represented thereby will be determined in accordance with the definition of "Capital Lease Obligation."

"*Beneficial Owner*" has the meaning assigned to such term in Rule 13d-3 and Rule 13d-5 under the Exchange Act. The terms "Beneficially Owns" and "Beneficially Owned" have a corresponding meaning.

"*Board of Directors*" means:

- (1) with respect to a corporation, the board of directors of the corporation or any committee thereof duly authorized to act on behalf of such board;
- (2) with respect to a partnership, the Board of Directors of the general partner of the partnership;
- (3) with respect to a limited liability company, the managing member or members or any controlling committee of managing members thereof; and
- (4) with respect to any other Person, the board or committee of such Person serving a similar function.

"*Capital Lease Obligation*" means, at the time any determination is to be made, the amount of the liability in respect of a capital lease that would at that time be required to be capitalized on a balance sheet in accordance with GAAP, and the Stated Maturity thereof shall be the date of the last payment of rent or any other amount due under such lease prior to the first date upon which such lease may be prepaid by the lessee without payment of a penalty.

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"*Capital Stock*" means:

- (1) in the case of a corporation, corporate stock;
- (2) in the case of an association or business entity, any and all shares, interests, participations, rights or other equivalents (however designated) of corporate stock;
- (3) in the case of a partnership or limited liability company, partnership interests (whether general or limited) or membership interests; and
- (4) any other interest or participation that confers on a Person the right to receive a share of the profits and losses of, or distributions of assets of, the issuing Person, but excluding from all of the foregoing any debt securities convertible into Capital Stock, whether or not such debt securities include any right of participation with Capital Stock.

"*Cash Equivalents*" means:

- (1) United States dollars, Euros or, in the case of any Foreign Subsidiary, any local currencies held by it from time to time;
- (2) (i) securities issued or directly and fully guaranteed or insured by the United States government or any agency or instrumentality of the United States government (*provided* that the full faith and credit of the United States is pledged in support of those securities) and (ii) debt obligations issued by the Government National Mortgage Association, Farm Credit System, Federal Home Loan Banks, Federal Home Loan Mortgage Corporation, Financing Corporation and Resolution Funding Corporation, in each case, having maturities of not more than 12 months from the date of acquisition;
- (3) certificates of deposit and eurodollar time deposits with maturities of six months or less from the date of acquisition, bankers' acceptances with maturities not exceeding 12 months and overnight bank deposits, in each case, with any domestic commercial bank having capital and surplus in excess of \$500.0 million and whose long-term debt, or whose parent company's long-term debt, has a rating of A2 or higher from Moody's and A or higher from S&P or, if Moody's and S&P do not rate the relevant bank, an equivalent rating issued by an equivalent non-U.S. rating agency, if any;
- (4) repurchase obligations with a term of not more than seven days for underlying securities of the types described in clauses (2) and (3) above entered into with any financial institution meeting the qualifications specified in clause (3) above;
- (5) commercial paper and auction rate securities having one of the two highest ratings obtainable from Moody's or S&P and in each case maturing within 12 months after the date of acquisition;
- (6) readily marketable direct obligations issued by any state of the United States or any political subdivision thereof, in either case having one of the two highest rating categories obtainable from either Moody's or S&P; and
- (7) money market funds that invest primarily in securities described in clauses (1) through (6) of this definition.

"*Change of Control*" means the occurrence of any of the following:

- (1) the direct or indirect sale, transfer, conveyance or other disposition (other than by way of merger or consolidation), in one or a series of related transactions, of all or substantially all of the properties or assets of NRG and its Subsidiaries taken as a whole to any "person" (as that term is used in Section 13(d) of the Exchange Act, but excluding any employee benefit plan of NRG or

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any of its Restricted Subsidiaries, and any person or entity acting in its capacity as trustee, agent or other fiduciary or administrator of such plan);

(2) the adoption of a plan relating to the liquidation or dissolution of NRG;

(3) the consummation of any transaction (including, without limitation, any merger or consolidation) the result of which is that any "person" (as defined above), other than a corporation owned directly or indirectly by the stockholders of NRG in substantially the same proportion as their ownership of stock of NRG prior to such transaction, becomes the Beneficial Owner, directly or indirectly, of more than 50% of the Voting Stock of NRG, measured by voting power rather than number of shares; or

(4) the first day on which a majority of the members of the Board of Directors of NRG are not Continuing Directors.

"*Change of Control Offer*" has the meaning assigned to it in the indenture governing the notes.

"*Change of Control Triggering Event*" means (i) a Change of Control has occurred and (ii) the notes are downgraded by either S&P or Moody's on any date during the period commencing 60 days prior to the consummation of such Change of Control and ending 60 days following consummation of such Change of Control.

"*Concurrent Cash Distributions*" has the meaning assigned to it in the definition of "Investments."

"*Consolidated Cash Flow*" means, with respect to any specified Person for any period, the Consolidated Net Income of such Person for such period plus, without duplication:

(1) an amount equal to any extraordinary loss (including any loss on the extinguishment or conversion of Indebtedness) plus any net loss realized by such Person or any of its Restricted Subsidiaries in connection with an Asset Sale (without giving effect of the threshold provided in the definition thereof), to the extent such losses were deducted in computing such Consolidated Net Income;

*plus*

(2) provision for taxes based on income or profits of such Person and its Restricted Subsidiaries for such period, to the extent that such provision for taxes was deducted in computing such Consolidated Net Income; *plus*

(3) the Fixed Charges of such Person and its Restricted Subsidiaries for such period, to the extent that such Fixed Charges were deducted in computing such Consolidated Net Income; *plus*

(4) any expenses or charges related to any equity offering, Permitted Investment, acquisition, disposition, recapitalization or Indebtedness permitted to be incurred by the indenture including a refinancing thereof (whether or not successful), including such fees, expenses or charges related to the offering of the notes and the Credit Agreement, and deducted in computing Consolidated Net Income; *plus*

(5) any professional and underwriting fees related to any equity offering, Permitted Investment, acquisition, recapitalization or Indebtedness permitted to be incurred under the indenture and, in each case, deducted in such period in computing Consolidated Net Income; *plus*

(6) the amount of any minority interest expense deducted in calculating Consolidated Net Income (less the amount of any cash dividends paid to the holders of such minority interests); *plus*

(7) any non cash gain or loss attributable to Mark to Market Adjustments in connection with Hedging Obligations; *plus*



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(8) without duplication, any writeoffs, writedowns or other non-cash charges reducing Consolidated Net Income for such period, excluding any such charge that represents an accrual or reserve for a cash expenditure for a future period; *plus*

(9) all items classified as extraordinary, unusual or nonrecurring non-cash losses or charges (including, without limitation, severance, relocation and other restructuring costs), and related tax effects according to GAAP to the extent such non-cash charges or losses were deducted in computing such Consolidated Net Income; *plus*

(10) depreciation, depletion, amortization (including amortization of intangibles but excluding amortization of prepaid cash expenses that were paid in a prior period) and other non-cash charges and expenses (excluding any such non-cash expense to the extent that it represents an accrual of or reserve for cash expenses in any future period or amortization of a prepaid cash expense that was paid in a prior period) of such Person and its Restricted Subsidiaries for such period to the extent that such depreciation, depletion, amortization and other non-cash expenses were deducted in computing such Consolidated Net Income; *minus*

(11) non-cash items increasing such Consolidated Net Income for such period, other than the accrual of revenue in the ordinary course of business; in each case, on a consolidated basis and determined in accordance with GAAP (including, without limitation, any increase in amortization or depreciation or other non-cash charges resulting from the application of purchase accounting in relation to any acquisition that is consummated after the Issue Date; *minus*

(12) interest income for such period;

*provided, however*, that Consolidated Cash Flow of NRG will exclude the Consolidated Cash Flow attributable to (i) Excluded Subsidiaries to the extent that the declaration or payment of dividends or similar distributions by the Excluded Subsidiary of that Consolidated Cash Flow is not, as a result of an Excluded Subsidiary Debt Default, then permitted by operation of the terms of the relevant Excluded Subsidiary Debt Agreement (*provided* that the Consolidated Cash Flow of the Excluded Subsidiary will only be so excluded for that portion of the period during which the condition described in the preceding proviso has occurred and is continuing), and (ii) for purposes of the covenant described above under the caption " Certain covenants Restricted payments" only, Excluded Project Subsidiaries.

"*Consolidated Interest Expense*" means, with respect to any Person for any period, the consolidated cash interest expense of such Person and its Restricted Subsidiaries (other than Excluded Project Subsidiaries) for such period, whether paid or accrued (including, without limitation, the interest component of any deferred payment obligations, the interest component of all payments associated with Capital Lease Obligations, imputed interest with respect to Attributable Debt, commissions, discounts and other fees and charges incurred in respect of letter of credit or bankers' acceptance financings, and net payments (if any) pursuant to interest rate Hedging Obligations, but not including amortization of original issue discount and other non-cash interest payments), net of cash interest income. For purposes of the foregoing, interest expense shall be determined after giving effect to any net payments made or received by NRG or any Restricted Subsidiary (other than an Excluded Project Subsidiary) with respect to any interest rate hedging agreements.

"*Consolidated Net Income*" means, with respect to any specified Person for any period, the aggregate of the Net Income of such Person and its Restricted Subsidiaries for such period, on a consolidated basis, determined in accordance with GAAP; *provided* that:

(1) the Net Income of any Person that is not a Restricted Subsidiary or that is accounted for by the equity method of accounting will be included only to the extent of the amount of dividends or similar distributions (including pursuant to other intercompany payments but excluding

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Concurrent Cash Distributions) paid in cash to the specified Person or a Restricted Subsidiary of the Person;

(2) for purposes of the covenant described above under the caption " Certain covenants Restricted payments" only, the Net Income of any Restricted Subsidiary will be excluded to the extent that the declaration or payment of dividends or similar distributions by that Restricted Subsidiary of that Net Income is not at the date of determination permitted without any prior governmental approval (that has not been obtained) or, directly or indirectly, by operation of the terms of its charter or any agreement, instrument, judgment, decree, order, statute, rule or governmental regulation applicable to that Restricted Subsidiary or its stockholders;

(3) the cumulative effect of a change in accounting principles will be excluded;

(4) any net after-tax non-recurring or unusual gains, losses (less all fees and expenses relating thereto) or other charges or revenue or expenses (including, without limitation, relating to severance, relocation and one-time compensation charges) shall be excluded;

(5) any non-cash compensation expense recorded from grants of stock appreciation or similar rights, stock options, restricted stock or other rights to officers, directors or employees shall be excluded, whether under FASB 123R or otherwise;

(6) any net after-tax income (loss) from disposed or discontinued operations and any net after-tax gains or losses on disposal of disposed or discontinued operations shall be excluded;

(7) any gains or losses (less all fees and expenses relating thereto) attributable to asset dispositions shall be excluded; and

(8) any impairment charge or asset write-off pursuant to Financial Accounting Statement No. 142 and No. 144 or any successor pronouncement shall be excluded.

"*Continuing Director*" means, as of any date of determination, any member of the Board of Directors of NRG who:

(1) was a member of such Board of Directors on the Issue Date; or

(2) was nominated for election or elected to such Board of Directors with the approval of a majority of the Continuing Directors who were members of such Board at the time of such nomination or election.

"*Contribution Indebtedness*" means Indebtedness of NRG in an aggregate principal amount not to exceed two times the aggregate amount of cash received by NRG after the Issue Date from the sale of its Equity Interests (other than Disqualified Stock) or as a contribution to its common equity capital (in each case, other than to or from a Subsidiary of NRG); *provided* that such Indebtedness (a) is incurred within 180 days after the sale of such Equity Interests or the making of such capital contribution and (b) is designated as "Contribution Indebtedness" pursuant to an officers' certificate on the date of its incurrence. Any sale of Equity Interests or capital contribution that forms the basis for an incurrence of Contribution Indebtedness will not be considered to be a sale of Qualifying Equity Interests and will be disregarded for purposes of the "Restricted Payments" covenant.

"*Credit Agreement*" means the Amended and Restated Credit Agreement, dated July 1, 2011, among NRG, the lenders party thereto, Citicorp North America, Inc., as administrative agent and collateral agent, and various other parties acting as joint bookrunner, joint lead arranger or in various agency capacities, as described in this prospectus under the heading "Description of Certain Other Indebtedness and Preferred Stock."

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"*Credit Facilities*" means (i) one or more debt facilities (including, without limitation, the Credit Agreement) or commercial paper facilities, in each case with banks or other institutional lenders providing for revolving credit loans, term loans, credit-linked deposits (or similar deposits) receivables financing (including through the sale of receivables to such lenders or to special purpose entities formed to borrow from such lenders against such receivables) or letters of credit and (ii) debt securities sold to institutional investors, in each case, as amended, restated, modified, renewed, refunded, replaced or refinanced (including by means of sales of debt securities to institutional investors) in whole or in part from time to time.

"*Debt to Cash Flow Ratio*" means, as of any date of determination (for purposes of this definition, the "*Calculation Date*"), the ratio of (a) the Total Debt of NRG as of such date to (b) the Consolidated Cash Flow of NRG for the four most recent full fiscal quarters ending immediately prior to such date for which financial statements are publicly available. For purposes of making the computation referred to above:

(1) Investments and acquisitions that have been made by NRG or any of its Restricted Subsidiaries, including through mergers or consolidations, or any Person or any of its Restricted Subsidiaries acquired by NRG or any of its Restricted Subsidiaries, and including any related financing transactions and including increases in ownership of Restricted Subsidiaries, during the four-quarter reference period or subsequent to such reference period and on or prior to the Calculation Date will be given pro forma effect (in accordance with Regulation S-X under the Securities Act, but including all Pro Forma Cost Savings) as if they had occurred on the first day of the four-quarter reference period;

(2) the Consolidated Cash Flow attributable to discontinued operations, as determined in accordance with GAAP, and operations or businesses (and ownership interests therein) disposed of prior to the Calculation Date, will be excluded;

(3) any Person that is a Restricted Subsidiary on the Calculation Date will be deemed to have been a Restricted Subsidiary at all times during such four-quarter period;

(4) any Person that is not a Restricted Subsidiary on the Calculation Date will be deemed not to have been a Restricted Subsidiary at any time during such four-quarter period; and

(5) the Consolidated Cash Flow attributable to Excluded Project Subsidiaries will be excluded for purposes of all calculations required by this definition.

"*Default*" means any event that is, or with the passage of time or the giving of notice or both would be, an Event of Default.

"*Designated Noncash Consideration*" means the fair market value of non-cash consideration received by NRG or any person who is an Affiliate of the Company as a result of the Company's ownership of Equity Interests in such Person in connection with an Asset Sale that is so designated as Designated Noncash Consideration pursuant to an officers' certificate, setting forth the basis of such valuation, executed by a senior financial officer of NRG, less the amount of cash or Cash Equivalents received in connection with a subsequent sale of such Designated Noncash Consideration.

"*Disqualified Stock*" means any Capital Stock that, by its terms (or by the terms of any security into which it is convertible, or for which it is exchangeable, in each case at the option of the holder of the Capital Stock), or upon the happening of any event, matures or is mandatorily redeemable, pursuant to a sinking fund obligation or otherwise, or redeemable at the option of the holder of the Capital Stock, in whole or in part, on or prior to the date that is 91 days after the date on which the notes mature. Notwithstanding the preceding sentence, any Capital Stock that would constitute Disqualified Stock solely because the holders of the Capital Stock have the right to require NRG to repurchase such Capital Stock upon the occurrence of a change of control or an asset sale will not

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constitute Disqualified Stock if the terms of such Capital Stock provide that NRG may not repurchase or redeem any such Capital Stock pursuant to such provisions unless such repurchase or redemption complies with the covenant described above under the caption " Certain covenants Restricted payments." The amount of Disqualified Stock deemed to be outstanding at any time for purposes of the indenture will be the maximum amount that NRG and its Restricted Subsidiaries may become obligated to pay upon the maturity of, or pursuant to any mandatory redemption provisions of, such Disqualified Stock, exclusive of accrued dividends.

"*Domestic Subsidiary*" means any Restricted Subsidiary of NRG that was formed under the laws of the United States or any state of the United States or the District of Columbia or that guarantees or otherwise provides direct credit support for any Indebtedness of NRG.

"*Environmental CapEx Debt*" shall mean Indebtedness of NRG or its Restricted Subsidiaries incurred for the purpose of financing Environmental Capital Expenditures.

"*Environmental Capital Expenditures*" shall mean capital expenditures deemed necessary by NRG or its Restricted Subsidiaries to comply with Environmental Laws.

"*Environmental Law*" shall mean any applicable Federal, state, foreign or local statute, law, rule, regulation, ordinance, code and rule of common law now or hereafter in effect and in each case as amended, and any binding judicial or administrative interpretation thereof, including any binding judicial or administrative order, consent decree or judgment, relating to the environment, human health or safety or Hazardous Materials.

"*Equity Interests*" means Capital Stock and all warrants, options or other rights to acquire Capital Stock (but excluding any debt security that is convertible into, or exchangeable for, Capital Stock).

"*ERCOT*" means the Electric Reliability Council of Texas.

"*Exchange Notes*" means the exchange notes to be issued pursuant to the registration rights agreement.

"*Excluded Foreign Subsidiary*" means, at any time, any Foreign Subsidiary that is (or is treated as) for United States federal income tax purposes either (1) a corporation or (2) a pass-through entity owned directly or indirectly by another Foreign Subsidiary that is (or is treated as) a corporation; *provided* that notwithstanding the foregoing, the following entities will be deemed to be "Excluded Foreign Subsidiaries": Sterling Luxembourg (No. 4) S.a.r.l., NRG Pacific Corporate Services Pty Ltd. and Tosli Acquisition B.V. and any subsidiary of Tosli Acquisition BV incorporated or formed in connection with the Itiquira Refinancing.

"*Excluded Proceeds*" means any Net Proceeds of an Asset Sale involving:

- (1) the sale of up to \$300.0 million in the aggregate received since the Issue Date from one or more Asset Sales of Equity Interests in, or property or assets of, any Foreign Subsidiaries or any Foreign Subsidiary Holding Company; and
- (2) the sale of up to \$50.0 million of assets per year,

in either event if and to the extent such Net Proceeds are designated by a Responsible Officer of NRG as Excluded Proceeds.

"*Excluded Project Subsidiary*" shall mean, at any time,

- (1) each Subsidiary of NRG that is an obligor or otherwise bound with respect to Non-Recourse Debt on the Issue Date,

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(2) any Person that becomes a Subsidiary of NRG after the Issue Date that is an obligor or otherwise bound with respect to Indebtedness that constitutes Non-Recourse Debt and that is not an obligor with respect to any other Indebtedness,

(3) any Person that is a Subsidiary of NRG on the Issue Date or any Person that becomes a Subsidiary of NRG after the Issue Date and that, in each case, has been designated, by a certificate executed by a Responsible Officer of NRG, as an Excluded Project Subsidiary dedicated to constructing or acquiring power generation facilities or related or ancillary assets or properties that are to be financed only with equity contributions and Non-Recourse Debt (and not any other Indebtedness), and

(4) any Subsidiary of NRG that (i) has been released as a Guarantor under the indenture pursuant to clause (7) of the third paragraph under the heading "Subsidiary Guarantees" or (ii), in the case of newly acquired or formed Subsidiaries, is not otherwise required to execute a Guarantee under the indenture as set forth under the heading "Additional Subsidiary Guarantees."

"Excluded Subsidiaries" mean

	(3,773
)	
Balance March 31, 2007	
\$	
	23,983
\$	
\$	
	23,983

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(1) U.S. Cellular's balance include customer lists allocated from TDS.

(2) This adjustment is the allocation of value related to U.S. Cellular's share buyback programs. See Note 13 - TDS Special Common and U.S. Cellular Common Share Repurchases for a discussion of U.S. Cellular's purchase of its Common Shares.

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Based on the Customer lists balance as of March 31, 2008, amortization expense for the remainder of 2008 and for the years 2009-2013 is expected to be \$8.5 million, \$7.7 million, \$6.0 million, \$3.0 million, \$0.5 million and \$0.1 million, respectively.

### 10. Marketable Equity Securities and Variable Prepaid Forward Contracts

TDS holds marketable equity securities, which were obtained in connection with the sale of non-strategic investments. Information regarding TDS marketable equity securities is summarized as follows:

	March 31, 2008	December 31, 2007
(Dollars in thousands)		
Marketable Equity Securities - Current Assets		
Deutsche Telekom AG - 55,969,689 and 85,969,689 Ordinary Shares, respectively	\$ 937,492	\$ 1,886,175
Rural Cellular Corporation - 719,396 Common Shares	31,819	31,718
Aggregate fair value included in Current Assets	969,311	1,917,893
Accounting cost basis	938,140	864,643
Gross unrealized holding gains (1)	31,171	1,053,250
Equity method unrealized gains	387	387
Income tax (expense)	(11,435)	(386,315)
Minority share of unrealized holding gains	(1,949)	(1,945)
Unrealized holding gains, net of tax and minority share (1)	18,174	665,377
Derivative instruments, net of tax and minority share(1)		(144,583)
Retirement plans, net of tax	(8,994)	(9,018)
Accumulated other comprehensive income	\$ 9,180	\$ 511,776

(1) Upon the adoption of SFAS 159 on January 1, 2008, unrealized holding gains and losses related to the Deutsche Telekom AG Ordinary Shares and the collar portions of the variable prepaid forward contracts related to such shares (derivatives) were reclassified to retained earnings. See Note 5 - Fair Value Measurements, for further details on the adoption of SFAS 159.

TDS entered into variable prepaid forward contracts ( forward contracts ) related to the Deutsche Telekom ordinary shares it holds. The economic hedge risk management objective of the forward contracts is to hedge the value of the marketable equity securities from losses due to decreases in the market prices of the securities while retaining a share of gains from increases in the market prices of such securities. The downside risk is hedged at or above the accounting cost basis of the securities. As of December 31, 2007, such forward contracts were scheduled to mature during the period January 2008 to September 2008. The principal amount of the forward contracts was accounted for as a loan. The forward contracts contain embedded collars that are bifurcated and accounted for as derivatives in accordance with SFAS 133.

The forward contracts related to 30 million Deutsche Telekom Ordinary Shares matured during the quarter ended March 31, 2008. TDS elected to deliver a substantial majority of the 30 million Deutsche Telekom ordinary shares in settlement of the forward contracts relating to such Deutsche Telekom ordinary shares and disposed of the remaining Deutsche Telekom ordinary shares related to such forward contracts and realized \$48.6 million of cash proceeds. Disposition of these 30 million shares through settlement and sale resulted in a current tax liability of \$113.0 million. After these forward contracts were settled in January and February 2008, TDS owns 55,969,689 Deutsche Telekom ordinary shares at March 31, 2008. The forward contracts related to TDS 55,969,689 Deutsche Telekom ordinary shares are scheduled to mature between May and September 2008. As a result of TDS adopting SFAS 159 as of January 1, 2008, no gain or loss was recognized upon the settlement in the quarter ended March 31, 2008. Rather changes in the fair value of the Deutsche Telekom ordinary shares and the collar portion of the forward contracts related to such shares were recorded in Gain (loss) on investments and financial instruments from January 1, 2008 through the respective settlement dates. See Note 5 - Fair Value Measurements for details on TDS adoption of SFAS 159 and the impact on TDS financial statements.

The remaining Deutsche Telekom ordinary shares are classified as Current Assets and the related forward contracts and derivative liability are classified as Current Liabilities in the Consolidated Balance Sheet at March 31, 2008. Contracts aggregating \$236.4 million require quarterly interest payments at the LIBOR rate plus 50 basis points (the three-month LIBOR rate was 2.69% at March 31, 2008). Contracts aggregating \$438.0 million are structured as zero-coupon obligations with a weighted average effective interest rate of 4.4% per year. No interest payments are required for the zero-coupon obligations during the contract period.

Under the terms of the forward contracts, TDS will continue to own the contracted shares and will receive dividends paid on such contracted shares, if any. The forward contracts may be settled in Deutsche Telekom shares or in cash, pursuant to formulas that collar the price of the shares. The collars typically are adjusted contractually for any changes in dividends on the underlying shares. If the dividend increases, the collar's upside potential typically is reduced. If the dividend decreases, the collar's upside potential typically is increased. If TDS elects to settle in shares, it will be required to deliver the number of shares of the contracted security determined pursuant to the formula. If shares are delivered in the settlement of the forward contract, TDS would incur a current tax liability at the time of delivery based on the difference between the tax basis of the marketable equity securities delivered and the net amount realized through maturity. If TDS elects to settle in cash, it will be required to pay an amount in cash equal to the fair market value of the number of shares determined pursuant to the formula.

In April and May 2008, TDS settled or agreed to settle forward contracts related to 46,969,689 additional Deutsche Telekom ordinary shares. The forward contracts related to the 46,969,689 Deutsche Telekom shares were or will be settled prior to their scheduled maturity dates in May 2008 through September 2008. See Note 17 Subsequent Events, for details on the early settlement of such forward contracts.

TDS is required to comply with certain covenants under the forward contracts. TDS believes that it was in compliance as of March 31, 2008 with all covenants and other requirements set forth in its forward contracts.

On July 30, 2007, RCCC announced that Verizon Wireless agreed to purchase the outstanding shares of RCCC for \$45 per share in cash. The acquisition is expected to close in 2008 and, therefore, the investment is classified as a Current Asset in TDS Consolidated Balance Sheet as of March 31, 2008. If the transaction closes, TDS will receive approximately \$32.4 million in cash, recognize a \$31.7 million pre-tax gain and cease to own any interest in RCCC.

## 11. Investments in Unconsolidated Entities

Investments in unconsolidated entities consist of amounts invested in wireless and wireline entities in which TDS holds a minority interest. These investments are accounted for using either the equity or cost method.

TDS held a 5.5% ownership interest in the Los Angeles SMSA Limited Partnership ( LA Partnership ) as of March 31, 2008 and March 31, 2007, and recorded \$15.8 million and \$18.0 million, respectively, of equity income related to the LA Partnership in the three month periods then ended. Such amounts are included in Equity in earnings of unconsolidated entities in the Consolidated Statements of Operations.

Based on data furnished to TDS by the managing partner the following table summarizes the operating results of the LA Partnership:

	Three Months Ended	
	March 31,	
	2008	2007
	(Dollars in thousands)	
Revenues	\$ 949,000	\$ 904,000
Operating expenses	652,000	584,000
Operating income	297,000	320,000
Other income	7,000	8,000
Net income	\$ 304,000	\$ 328,000

## 12. Commitments and Contingencies

### Indemnifications

TDS enters into agreements in the normal course of business that provide for indemnification of counterparties. These agreements include certain asset sales and financings with other parties. The terms of the indemnifications vary by agreement. The events or circumstances that would require TDS to perform under these indemnities are transaction specific; however, these agreements may require TDS to indemnify the counterparty for costs and losses incurred from litigation or claims arising from the underlying transaction. TDS is unable to estimate the maximum potential liability for these types of indemnifications as the amounts are dependent on the outcome of future events, the nature and likelihood of which cannot be determined at this time. Historically, TDS has not made any significant indemnification payments under such agreements.



Legal Proceedings

TDS is involved or may be involved from time to time in legal proceedings before the FCC, other regulatory authorities, and/or various state and federal courts. If TDS believes that a loss arising from such legal proceedings is probable and can be reasonably estimated, an amount is accrued in the financial statements for the estimated loss. If only a range of loss can be determined, the best estimate within that range is accrued; if none of the estimates within that range is better than another, the low end of the range is accrued. The assessment of the expected outcomes of legal proceedings is a highly subjective process that requires judgments about future events. The legal proceedings are reviewed at least quarterly to determine the adequacy of accruals and related financial statement disclosures. The ultimate outcomes of legal proceedings could differ materially from amounts accrued in the financial statements.

### 13. TDS Special Common and U.S. Cellular Common Share Repurchases

On March 2, 2007, the TDS Board of Directors authorized the repurchase of up to \$250 million of TDS Special Common Shares from time to time through open market purchases, block transactions, private purchases or otherwise. This authorization will expire on March 2, 2010. During the three months ended March 31, 2008, TDS repurchased 1,041,016 Special Common Shares for \$45.1 million, or an average of \$43.28 per share pursuant to this authorization. Of this amount, \$40.6 million was paid in the first quarter of 2008, and \$4.5 million was paid in April of 2008. TDS did not repurchase any Special Common Shares in the first quarter of 2007. As of March 31, 2008, TDS has purchased a total of \$171.7 million of Special Common Shares under this authorization, and therefore may purchase up to \$78.3 million in future periods.

The Board of Directors of U.S. Cellular has authorized the repurchase of up to 1% of the outstanding U.S. Cellular Common Shares held by non-affiliates in each three month period, primarily for use in employee benefit plans. This authorization does not have an expiration date. During the three months ended March 31, 2008, U.S. Cellular repurchased 150,000 Common Shares for \$10.8 million, or an average of \$71.70 per share, pursuant to this authorization. U.S. Cellular also received \$4.6 million in cash during the first quarter of 2008 as a final settlement payment for 2007 Common Share repurchases executed through accelerated share repurchase agreements with an investment banking firm. U.S. Cellular did not repurchase any Common Shares in the first quarter of 2007.

TDS' ownership percentage of U.S. Cellular increases upon such U.S. Cellular share repurchases. Therefore, TDS accounts for U.S. Cellular's purchases of U.S. Cellular Common Shares as step acquisitions using purchase accounting. See Note 8 - Licenses and Goodwill, and Note 9 - Customer Lists, for details on the amounts allocated to Licenses, Goodwill and Customer Lists related to the repurchase of U.S. Cellular Common Shares for the three months ended March 31, 2008.

**14. Accumulated Other Comprehensive Income**

The cumulative balances of unrealized gains (losses) on marketable equity securities, derivative instruments and retirement plans and related income tax effects included in Accumulated other comprehensive income are as follows.

	Three Months Ended March 31,	
	2008	2007
	(Dollars in thousands)	
<b>Marketable Equity Securities</b>		
Balance, beginning of period (prior to adoption of SFAS 159)	\$ 665,377	\$ 749,978
Cumulative effect adjustment upon the adoption of SFAS 159(1)	(647,260)	
Balance, beginning of period (after adoption of SFAS 159)	18,117	749,978
Add (deduct):		
Unrealized gains (losses)	101	(247,902)
Deferred tax (expense) benefit	(39)	90,774
	62	(157,128)
Minority share of unrealized gains	(5)	962
Net increase (decrease) in unrealized gains	57	(156,166)
Initial application of FIN 48(2)		30,306
Balance, end of period	\$ 18,174	\$ 624,118
<b>Derivative Instruments</b>		
Balance, beginning of period (prior to adoption of SFAS 159)	\$ (144,583)	\$ (215,122)
Cumulative effect adjustment upon the adoption of SFAS 159(1)	144,583	
Balance, beginning of period (after adoption of SFAS 159)		(215,122)
Add (deduct):		
Minority share of unrealized losses		(4)
Net (increase) decrease in unrealized losses		(4)
Initial application of FIN 48(2)		(9,583)
Balance, end of period	\$	\$ (224,709)
<b>Retirement Plans</b>		
Balance, beginning of period	\$ (9,018)	\$ (12,743)
Add (deduct):		
Amounts included in net periodic benefit cost for the period		
Amortization of prior service cost	(207)	(207)
Amortization of unrecognized net loss	242	340
	35	133
Deferred income tax (expense)	(11)	(51)
Net change in retirement plans	24	82
Balance, end of year	\$ (8,994)	\$ (12,661)
<b>Accumulated Other Comprehensive Income</b>		
Balance, beginning of period (prior to adoption of SFAS 159)	\$ 511,776	\$ 522,113
Cumulative effect adjustment upon the adoption of SFAS 159(1)	(502,677)	
Balance, beginning of period (after adoption of SFAS 159)	9,099	522,113
Add (deduct):		
Net change in marketable equity securities	57	(156,166)
Net change in derivative instruments		(4)
Net change in retirement plans	24	82
Net change included in comprehensive income	81	(156,088)
Initial application of FIN 48(2)		20,723
Net change included in accumulated comprehensive income	81	(135,365)

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Balance, end of period \$ 9,180 \$ 386,748

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(1) See Note 5 - Fair Value Measurements for additional detail related to the cumulative effect adjustment related to the adoption of SFAS 159.

(2) FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* an interpretation of FASB Statement No. 109 ( FIN 48 ).

	Three Months Ended March 31,	
	2008	2007
<b>Comprehensive Income</b>	\$ 73,487	\$ 219,325
Net income	81	(156,088)
Net change included in comprehensive income	\$ 73,568	\$ 63,237

## 15. Business Segment Information

Financial data for TDS business segments for the three month period ended or as of March 31, 2008 and 2007 are as follows. TDS Telecom's incumbent local exchange carriers are designated as ILEC in the table and its competitive local exchange carrier is designated as CLEC.

Three Months Ended or as of March 31, 2008 (Dollars in thousands)	U.S. Cellular	TDS Telecom		Non- Reportable Segment(1)	Other Reconciling Items(2)	Total
		ILEC	CLEC			
Operating revenues	\$ 1,037,856	\$ 151,815	\$ 56,129	\$ 11,623	\$ (8,322)	\$ 1,249,101
Cost of services and products	365,053	44,834	26,333	8,479	(2,316)	442,383
Selling, general and administrative expense	407,634	42,481	17,026	1,902	(5,744)	463,299
Operating income before depreciation, amortization and accretion, (gain) loss on asset disposals(3)	265,169	64,500	12,770	1,242	(262)	343,419
Depreciation, amortization and accretion expense	142,530	33,624	5,884	722	3,398	186,158
(Gain) loss on asset disposals	3,673	(21)				3,652
Operating income (loss)	118,966	30,897	6,886	520	(3,660)	153,609
Significant non-operating items:						
Equity in earnings of unconsolidated entities	21,235	1			234	21,470
Gain (loss) on investments and financial instruments					(3,490)	(3,490)
Marketable equity securities	16,404				952,907	969,311
Investments in unconsolidated entities	172,586	6,528			45,168	224,282
Total assets	5,926,074	1,659,633	146,902	29,304	1,476,500	9,238,413
Capital expenditures	111,690	14,646	3,436	929	1,764	132,465

Three Months Ended or as of March 31, 2007 (Dollars in thousands)	U.S. Cellular	TDS Telecom		Non- Reportable Segment (1)	Other Reconciling Items(2)	Total
		ILEC	CLEC			
Operating revenues	\$ 934,674	\$ 157,592	\$ 61,350	\$ 9,323	\$ (6,382)	\$ 1,156,557
Cost of services and products	318,028	49,097	28,957	7,298	(1,347)	402,033
Selling, general and administrative expense	358,866	41,859	21,603	1,466	(3,377)	420,417
Operating income before depreciation, amortization and accretion, (gain) loss on asset disposals(3)	257,780	66,636	10,790	559	(1,658)	334,107
Depreciation, amortization and accretion expense	145,952	34,046	5,859	632	1,516	188,005
(Gain) loss on asset disposals	3,305					3,305
Operating income (loss)	108,523	32,590	4,931	(73)	(3,174)	142,797
Significant non-operating items:						
Equity in earnings of unconsolidated entities	23,098				598	23,696
Gain (loss) on investments and financial instruments	12,461				243,409	255,870
Marketable equity securities	245,228				2,300,027	2,545,255
Investments in unconsolidated entities	171,040	3,623			44,211	218,874
Total assets	5,798,194	1,663,824	155,870	25,001	2,777,050	10,419,939
Capital expenditures	109,729	16,055	2,583	1,057	1,293	130,717

(1) Represents Suttle Straus.

(2) Consists of the Corporate operations, intercompany eliminations, TDS Corporate and TDS Telecom marketable equity securities and other corporate investments.

(3) The amount of operating income before depreciation, amortization and accretion and (gain) loss on asset disposals is a non-GAAP financial measure. The amount may also be commonly referred to by management as operating cash flow. TDS has presented operating cash flow because this financial measure, in combination with other financial measures, is an integral part of our internal reporting system utilized by management to assess and evaluate the performance of its business. Operating cash flow is also considered a significant performance measure. It is used by management as a measurement of its success in obtaining, retaining and servicing customers by reflecting its ability to generate subscriber revenue while providing a high level of customer service in a cost effective manner. The components of operating cash flow include the key revenue and expense items for which operating managers are responsible and upon which TDS evaluates its performance.

Other companies in the wireless industry may define operating cash flow in a different manner or present other varying financial measures, and, accordingly, TDS' presentation may not be comparable to other similarly titled measures of other companies.

Operating cash flow should not be construed as an alternative to operating income (loss), as determined in accordance with U.S. GAAP, as an alternative to cash flows from operating activities, as determined in accordance with U.S. GAAP, or as a measure of liquidity. TDS believes operating cash flow is useful to investors as a means to evaluate TDS' operating performance prior to noncash depreciation and amortization expense, and certain other noncash charges. Although operating cash flow may be defined differently by other companies in the wireless industry, TDS believes that operating cash flow provides some commonality of measurement in analyzing operating performance of companies in the wireless industry.

#### **16. Supplemental Cash Flow Disclosures**

TDS withheld 1,368 Special Common Shares with an aggregate value of \$0.1 million in the three months ended March 31, 2008 from employees who exercised stock options or who received distribution of vested restricted stock awards. Such shares were withheld to cover the exercise price of stock options, if applicable, and required tax withholdings. No Common Shares were withheld in the same period. No Special Common Shares or Common Shares were withheld in the three months ended March 31, 2007.

U.S. Cellular withheld 145,827 and 6,950 Common Shares with an aggregate value of \$8.6 million and \$0.5 million in the three months ended March 31, 2008 and 2007, respectively, from employees who exercised stock options or who received a distribution of vested restricted stock awards. Such shares were withheld to cover the exercise price of stock options, if applicable, and required tax withholdings.

TDS declared a dividend of \$0.1025 per share during the first quarter of 2008. This resulted in aggregate dividends of \$12.0 million, which were paid in April 2008. This amount is recorded as a component of Other current liabilities in TDS March 31, 2008 Consolidated Balance Sheet.

#### **17. Subsequent Events**

U.S. Cellular has a \$700 million revolving credit facility available for general corporate purposes. U.S. Cellular may select borrowing periods of either seven days or one, two, three or six months. If U.S. Cellular provides less than two days notice of intent to borrow, the related borrowings bear interest at the prime rate less 50 basis points. This credit facility expires in December 2009.

On April 15, 2008, U.S. Cellular borrowed \$100 million under its revolving credit facility. These proceeds along with additional cash on hand of \$103.5 million were contributed to King Street Wireless and its general partner. King Street Wireless in turn paid \$203.5 million to the FCC in order to fulfill its remaining obligation incurred upon the purchase of licenses in Auction 73. See Note 3 - Acquisitions, Divestitures and Exchanges for more information on Auction 73. U.S. Cellular is a limited partner of King Street Wireless and consolidates this entity pursuant to the provisions of FIN 46(R). See Note 4 - Variable Interest Entities for more information on King Street Wireless. U.S. Cellular anticipates repaying the amount borrowed from future cash flows from operations and/or long-term debt financing.

During the period April 1, 2008 through May 7, 2008, TDS settled or has agreed to settle variable prepaid forward contracts related to 46,969,689 Deutsche Telekom shares. These forward contracts were or will be settled prior to their scheduled maturity dates in May 2008 through September 2008. TDS settled or will settle these forward contracts through a combination of delivery of Deutsche Telekom shares and the payment of cash. The Deutsche Telekom shares retained by TDS related to variable prepaid forward contracts that have settled in April and May 2008 were subsequently sold. These early settlements are not expected to have a significant impact on TDS results of operations. After these transactions, TDS will hold 9 million Deutsche Telekom shares and forward contracts related to such shares which mature in June 2008.



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

Telephone and Data Systems, Inc. ( TDS ) is a diversified telecommunications company providing high-quality telecommunications services in 26 states to approximately 6.2 million wireless customers and 1.2 million wireline equivalent access lines at March 31, 2008. TDS conducts substantially all of its wireless operations through its 80.8%-owned subsidiary, United States Cellular Corporation ( U.S. Cellular ), and its incumbent local exchange carrier ( ILEC ) and competitive local exchange carrier ( CLEC ) wireline operations through its wholly owned subsidiary, TDS Telecommunications Corporation ( TDS Telecom ). TDS conducts printing and distribution services through its 80%-owned subsidiary, Suttle Straus, Inc. which represents a small portion of TDS' operations.

The following discussion and analysis should be read in conjunction with TDS' interim consolidated financial statements and footnotes included herein and the description of TDS' business included in Item 1 of the TDS Annual Report on Form 10-K for the year ended December 31, 2007.

**OVERVIEW**

The following is a summary of certain selected information contained in the comprehensive Management's Discussion and Analysis of Financial Condition and Results of Operations that follows. The overview does not contain all of the information that may be important. You should carefully read the entire Management's Discussion and Analysis of Financial Condition and Results of Operations and not rely solely on the overview.

**U.S. Cellular** - U.S. Cellular provides wireless telecommunications services to approximately 6.2 million customers in five geographic market areas in 26 states. As of March 31, 2008, U.S. Cellular owned or had rights to acquire interests in 260 wireless markets and operated approximately 6,452 cell sites. U.S. Cellular operates on a customer satisfaction strategy, meeting customer needs by providing a comprehensive range of wireless products and services, excellent customer support, and a high-quality network. U.S. Cellular's business development strategy is to operate controlling interests in wireless licenses in areas adjacent to or in proximity to its other wireless licenses, thereby building contiguous operating market areas. U.S. Cellular anticipates that operating in contiguous market areas will continue to provide it with certain economies in its capital and operating costs.

Financial and operating highlights in the first quarter of 2008 included the following:

- Total customers increased 4% year-over-year to 6.2 million at March 31, 2008; net retail customer additions were 85,000;
- The retail postpay churn rate was 1.4% per month. Retail postpay customers comprised approximately 86% of U.S. Cellular's customer base as of March 31, 2008;
- Average monthly service revenue per customer increased 7% year-over-year to \$52.06;

- Additions to property, plant and equipment totaled \$111.7 million, including expenditures to construct cell sites, increase capacity in existing cell sites and switches, outfit new and remodel existing retail stores and continue the development and enhancements of U.S. Cellular's office systems. Total cell sites in service increased 7% year-over-year to 6,452; and

- To strengthen its operating footprint, U.S. Cellular participated in the Federal Communications Commission ( FCC ) auction of spectrum in the 700 megahertz band, known as Auction 73, indirectly through its interest in King Street Wireless, L.P. ( King Street Wireless ). U.S. Cellular is a limited partner in King Street Wireless. King Street Wireless was the provisional winning bidder for 152 licenses for an aggregate bid of \$300.5 million, net of its designated entity discount of 25%. The licenses expected to be awarded to King Street Wireless cover areas that overlap or are proximate or contiguous to areas covered by licenses that U.S. Cellular currently owns, operates and/or consolidates.

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Service revenues increased \$101.5 million, or 12%, to \$962.1 million in 2008 from \$860.6 million in 2007. Customer growth and improvements in average monthly revenue per unit have driven increased revenues. U.S. Cellular continues to experience growth in its customer base, primarily in the retail postpay segment. In addition, U.S. Cellular continues to experience increases in average monthly revenue per unit driven by continuing migration of customers to national, wide area and family service plans and growth in revenues from data products and services.

Operating Income increased \$10.4 million, or 10%, to \$119.0 million in 2008 from \$108.5 million in 2007. Operating income margin (as a percent of service revenues) was 12.4% in 2008 compared to 12.6% in 2007.

U.S. Cellular anticipates that there will be continued pressure on its operating income and operating income margin in the next few years related to the following factors:

- increasing penetration in the wireless industry;
- costs of customer acquisition and retention, such as equipment subsidies and advertising;
- effects of competition;
- providing service in recently launched areas or potential new market areas;
- potential increases in prepaid and reseller customers as a percentage of U.S. Cellular's customer base;
- costs of developing and introducing new products and services;
- continued enhancements to its wireless networks, including potential deployments of new technology;
- increasing costs of regulatory compliance; and
- uncertainty in future eligible telecommunication carrier (ETC) funding.

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In addressing these challenges, U.S. Cellular will continue to focus on improving customer satisfaction and enhancing the quality of its networks, its product and service offerings and its sales distribution.

See Results of Operations Wireless.

**TDS Telecom** - TDS Telecom provides high-quality telecommunication services, including full-service local exchange service, long distance telephone service, and Internet access, to rural and suburban area communities. TDS Telecom's business plan is designed for a full-service telecommunications company, including competitive local exchange carrier operations (CLEC), by leveraging TDS Telecom's strength as an incumbent local exchange carrier (ILEC). TDS Telecom's strategy is to be the preferred provider of telecommunications services including voice, broadband, and video services in its chosen markets. This strategy encompasses many components, including developing service and product, market and customer strategies; investing in networks and deploying advanced technologies; monitoring the competitive environment; advocating with respect to state and federal regulation for positions that support its ability to provide advanced telecommunications services to its customers; and exploring transactions to acquire or divest properties that would result in strengthening its operations.

Both ILECs and CLECs are faced with significant challenges, including the industry decline in use of second lines by customers, growing competition from wireless and other wireline providers (other CLECs and cable providers), changes in regulation, new technologies such as Voice over Internet Protocol (VoIP), and the uncertainty in the economy. These challenges could have a material adverse effect on the financial condition, results of operations and cash flows of TDS Telecom in the future.

Overall equivalent access lines served by TDS Telecom as of March 31, 2008 decreased 2% compared to March 31, 2007, while physical access lines declined 5% as of March 31, 2008 compared to March 31, 2007. Equivalent access lines are the sum of physical access lines and high-capacity data lines adjusted to estimate the equivalent number of physical access lines in terms of capacity. A physical access line is an individual circuit connecting a customer to a telephone company's central office facilities.

Operating revenues decreased \$11.5 million, or 5.3% to \$206.1 million in the three months ended March 31, 2008 from \$217.6 million in 2007. The decrease in 2008 was primarily due to a decline in ILEC and CLEC physical access lines, lower rates from bundling promotions and a decrease in network usage by inter-exchange carriers.

Operating income remained substantially unchanged at \$37.8 million in 2008 compared to \$37.5 million in 2007, as decreased revenues were offset by lower costs. Operating margins improved in 2008 to 18.3% from 17.2% in 2007. The increase in 2008 was primarily due to cost reduction initiatives.

See Results of Operations Wireline.

**Cash Flows and Investments** - TDS and its subsidiaries had cash and cash equivalents totaling \$1,209.8 million, availability under their revolving credit facilities of \$1,296.4 million, and additional bank lines of credit of \$25 million as of March 31, 2008. Also, during the quarter ended March 31, 2008, TDS and its subsidiaries generated \$269.0 of cash flows from operating activities. Management believes that cash on hand, expected future cash flows from operating activities and sources of external financing provide substantial financial flexibility and are sufficient to permit TDS and its subsidiaries to finance their contractual obligations and anticipated capital expenditures for the foreseeable future.

See Financial Resources and Liquidity and Capital Resources for additional information related to cash flows and investments.

### Recent Developments

As disclosed in our Annual Report on Form 10-K for the year ended December 31, 2007, before the FCC for comment are proposals made by the Federal-State Joint Board and by the FCC itself to change the universal service high cost fund in various ways. On April 29, 2008, the FCC adopted an interim "cap" on the high cost program for funding that goes to competitive ETCs, limiting total high cost funding for the state to the levels being provided to all such carriers in that state in March 2008, with an exemption from the cap for carriers serving tribal lands and Alaskan Native Lands. The cap, which will be of indefinite duration, will result in wireless ETCs, such as U.S. Cellular, receiving less support than they would have been otherwise eligible to receive while the cap is in effect, as overall support will not increase as a carrier adds customers or as new competitive carriers are granted ETC status in the state. The decision to cap overall funding to competitive ETCs will not impact the wireline carriers owned by TDS Telecom. The FCC will also consider the other changes in the Federal Universal Service Fund ( USF ) discussed in our Form 10-K.



**RESULTS OF OPERATIONS - CONSOLIDATED**

Three Months Ended March 31,	2008	Increase/ (Decrease)	Percentage Change	2007
		(Dollars in thousands)		
<b>Operating revenues</b>				
U.S. Cellular	\$ 1,037,856	\$ 103,182	11.0%	\$ 934,674
Telecom	206,076	(11,546)	(5.3)%	217,622
All other(1)	5,169	908	21.3%	4,261
Total operating revenues	1,249,101	92,544	8.0%	1,156,557
<b>Operating expenses</b>				
U.S. Cellular	918,890	92,739	11.2%	826,151
Telecom	168,293	(11,808)	(6.6)%	180,101
All other(1)	8,309	801	10.7%	7,508
Total operating expenses	1,095,492	81,732	8.1%	1,013,760
<b>Operating income (loss)</b>				
U.S. Cellular	118,966	10,443	9.6%	108,523
Telecom	37,783	262	0.7%	37,521
All other(1)	(3,140)	107	3.3%	(3,247)
Total operating income (loss)	153,609	10,812	7.6%	142,797
<b>Other income and (expenses)</b>				
Equity in earnings of unconsolidated entities	21,470	(2,226)	(9.4)%	23,696
Interest and dividend income	9,746	(6,450)	(39.8)%	16,196
Gain (loss) on investments and financial instruments	(3,490)	(259,360)	(101.4)%	255,870
Interest expense	(41,380)	16,421	28.4%	(57,801)
Other income (expense)	(199)	2,025	91.1%	(2,224)
Income tax expense	(49,251)	91,987	65.1%	(141,238)
Minority share of income	(17,018)	953	5.3%	(17,971)
Preferred dividend requirement	(13)		0.0%	(13)
<b>Net Income Available to Common</b>	<b>\$ 73,474</b>	<b>\$ (145,838)</b>	<b>(66.5)%</b>	<b>\$ 219,312</b>
<b>Basic Earnings Per Share</b>	<b>\$ 0.62</b>	<b>\$ (1.26)</b>	<b>(67.0)%</b>	<b>\$ 1.88</b>
<b>Diluted Earnings Per Share</b>	<b>\$ 0.62</b>	<b>\$ (1.23)</b>	<b>(66.5)%</b>	<b>\$ 1.85</b>

(1) Consists of Suttle Straus printing and distribution operations, Corporate Operations and intercompany eliminations

**Operating Revenues**

The increase in operating revenues primarily reflects growth in wireless customers and average monthly service revenue per wireless customer. U.S. Cellular revenue growth reflects wireless customer growth of 4% in 2008, and growth in average monthly service revenue per wireless customer of 7% in 2008. TDS Telecom operating revenues decreased primarily reflecting a decline in ILEC and CLEC physical access lines, lower rates from bundling promotions and a decrease in network usage by inter-exchange carriers. Equivalent access lines decreased 2% from March 31, 2007 to March 31, 2008.

**Operating Expenses**

The increase primarily reflects costs associated with acquiring customers and serving and retaining its expanding customer base at U.S. Cellular.

**Operating Income**

The increase in operating income from 2007 to 2008 reflects higher operating revenues at U.S. Cellular.



### **Equity in earnings of unconsolidated entities**

Equity in earnings of unconsolidated entities represents TDS' share of net income from markets in which it has a minority interest and that are accounted for by the equity method. TDS follows the equity method of accounting for minority interests in which its ownership interest equals or exceeds 20% for corporations and 3% for partnerships and limited liability companies.

TDS' investment in the Los Angeles SMSA Limited Partnership ( LA Partnership ) contributed \$15.8 million and \$18.0 million in equity in earnings from unconsolidated entities in 2008 and 2007, respectively.

### **Interest and dividend income**

The decrease in interest and dividend income in 2008 is primarily due to a lower interest rate paid on cash balances in 2008 than 2007. This was due to both a decline in short-term interest rates in the first quarter of 2008 compared to the first quarter of 2007, and a change in TDS' cash investments during each quarter. During the first quarter of 2008, TDS invested substantially all of its cash balances in money market funds that invest exclusively in short-term U.S. Treasury securities. During the first quarter of 2007, TDS invested substantially all of its cash balances in prime money market funds.

### **Gain (loss) on investments and financial instruments**

Gain (loss) on investments and financial instruments for 2008 includes a \$357.2 loss attributable to a decrease in the fair value of Deutsche Telekom ordinary shares. This loss was largely offset by a \$353.7 gain on the collar portions of the variable prepaid forward contracts related to such Deutsche Telekom ordinary shares. Effective January 1, 2008, TDS adopted Statement of Financial Accounting Standards No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities - Including an Amendment of FASB Statement No. 115* ( SFAS 159 ) for the Deutsche Telekom ordinary shares and the collar portions of the variable prepaid forward contracts related to such shares. As a result, after January 1, 2008, changes in the fair value of the Deutsche Telekom ordinary shares are recorded in the Statement of Operations. Prior to the adoption of SFAS 159, gains and losses on the Deutsche Telekom ordinary shares were recorded as a component of Accumulated other comprehensive income, a balance sheet account.

Gain (loss) on investments and financial instruments for 2007 primarily includes \$239.7 million and \$15.8 million of gains attributable to the collar portions of the variable prepaid forward contracts related to TDS' Deutsche Telekom and Vodafone Group Plc holdings, respectively.

See Note 5 - Fair Value Measurements in the Notes of the Consolidated Financial Statements, for more information on the adoption of SFAS 159, and further detail on the components of Gain (loss) on investments and financial instruments in each period.

### **Interest expense**

The decrease in interest expense in 2008 was primarily due to a decrease in interest incurred on variable prepaid forward contracts (\$14.5 million) due to the settlement of prepaid forward contracts with an aggregate principal amount of \$1,079.7 million in 2007 and the first quarter of 2008, and a decrease in interest related to U.S. Cellular's revolving credit facility (\$1.9 million).

**Other income (expense)**

Borrowing costs on the variable prepaid forward contracts decreased \$1.2 million in 2008 compared to 2007.

**Income tax expense**

The effective tax rate on Income from Continuing Operations Before Income Taxes and Minority Interest was 35.2% and 37.3% for the three months ended March 31, 2008 and 2007, respectively. The effective tax rate for the 2008 period was attributable to lower state income tax rates applicable to taxable gains recorded in the first quarter of 2008.

**Minority share of income**

Minority share of income includes the minority public shareholders' share of U.S. Cellular's net income, the minority shareholders' or partners' share of certain U.S. Cellular subsidiaries' net income or loss and other TDS minority interests.

	<b>Three Months Ended</b>		<b>March 31,</b>	
	<b>2008</b>		<b>2007</b>	
	<b>(Dollars in thousands)</b>			
<b>Minority Share of Income</b>				
U.S. Cellular				
Minority Public Shareholders	\$	(13,483)	\$	(14,466)
Minority Shareholders' or Partners		(3,462)		(3,511)
		(16,945)		(17,977)
Other		(73)		6
	\$	(17,018)	\$	(17,971)

**RESULTS OF OPERATIONS WIRELESS**

TDS provides wireless telephone service through United States Cellular Corporation ( U.S. Cellular ), an 80.8%-owned subsidiary. U.S. Cellular owns, manages and invests in wireless markets throughout the United States. Growth in the customer base is the primary reason for the change in U.S. Cellular's results of operations in 2008 from 2007. The number of customers increased 4% to 6,201,000 at March 31, 2008, from 5,973,000 at March 31, 2007, due to customer additions from its marketing channels and acquisition, divestitures and exchange activities.

Following is a table of summarized operating data for U.S. Cellular's consolidated operations.

<b>As of March 31,(1)</b>	<b>2008</b>	<b>2007</b>
Total market population of consolidated operating markets(2)	45,262,000	44,416,000
Customers(3)	6,201,000	5,973,000
Market penetration(2)	13.7%	13.4%
Total full-time equivalent employees	8,105	7,484
Cell sites in service	6,452	6,004

  

<b>For the Three Months Ended March 31,(4)</b>	<b>2008</b>	<b>2007</b>
Net customer additions(5)	80,000	152,000
Net retail customer additions(5)	85,000	146,000
Average monthly service revenue per customer(6)	\$ 52.06	\$ 48.69
Retail postpay churn rate per month(7)	1.4%	1.3%
Total postpay churn rate per month(7)	1.5%	1.5%

(1) Amounts include results for U.S. Cellular's consolidated operating markets as of March 31; results for operating markets acquired during a particular period are included as of the acquisition date.

(2) Calculated using 2007 and 2006 Claritas population estimates for 2008 and 2007, respectively. Total market population of consolidated operating markets is used only for the purposes of calculating market penetration of consolidated operating markets, which is calculated by dividing customers by the total market population (without duplication of population in overlapping markets).

The total market population and penetration measures for consolidated operating markets apply to markets in which U.S. Cellular provides wireless service to customers. For comparison purposes, total market population and penetration related to all consolidated markets in which U.S. Cellular owns an interest were 82,846,000 and 7.5%, and 56,048,000 and 10.7% as of March 31, 2008 and 2007, respectively.

As of March 31, 2008, U.S. Cellular had rights to acquire majority interests in 19 licenses, resulting from an exchange transaction with AT&T Wireless (now part of AT&T) that closed in August 2003. As of April 10, 2008, U.S. Cellular exercised its rights to acquire 18 licenses pursuant to this exchange agreement. These licenses will increase total market population of consolidated markets by 1,566,000 to 84,412,000. The exercise of these rights did not require U.S. Cellular to provide any additional consideration to AT&T, other than consideration already provided in conjunction with the August 2003 exchange transaction. Therefore, exercise of these rights did not cause a change in U.S. Cellular's Licenses balance in 2008. U.S. Cellular continues to have a right that does not have a stated expiration date to acquire a majority interest in one license under the exchange agreement.

(3) U.S. Cellular's customer base consists of the following types of customers:

	2008	March 31,	2007
Customers on postpay service plans in which the end user is a customer of U.S. Cellular ( postpay customers )	5,331,000		5,048,000
End user customers acquired through U.S. Cellular's agreement with a third party ( reseller customers )*	561,000		596,000
<b>Total postpay customers</b>	<b>5,892,000</b>		<b>5,644,000</b>
Customers on prepaid service plans in which the end user is a customer of U.S. Cellular ( prepaid customers )	309,000		329,000
<b>Total customers</b>	<b>6,201,000</b>		<b>5,973,000</b>

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\* Pursuant to its agreement with the third party, U.S. Cellular is compensated by the third party on a postpay basis; as a result, all customers U.S. Cellular has acquired through this agreement are considered to be postpay customers.

(4) Amounts include results for U.S. Cellular's consolidated operating markets for the period January 1 through March 31; operating markets acquired during a particular period are included as of the acquisition date.

(5) Net customer additions represents the number of net customers added to U.S. Cellular's overall customer base through all of its marketing distribution channels, excluding any customers transferred through acquisitions, divestitures or exchanges. Net retail customer additions represents the number of net customers added to U.S. Cellular's customer base through its marketing distribution channels, excluding net reseller customers added to its reseller customer base and excluding any customers transferred through acquisitions, divestitures or exchanges.

(6) Management uses this measurement to assess the amount of service revenue that U.S. Cellular generates each month on a per customer basis. Variances in this measurement are monitored and compared to variances in expenses on a per customer basis. Average monthly service revenue per customer is calculated as follows:

	Three Months Ended March 31,	
	2008	2007
Service revenues per Consolidated Statements of Operations (000s)	\$ 962,094	\$ 860,583
Divided by average customers during period (000s)*	6,160	5,892
Divided by number of months in each period	3	3
Average monthly service revenue per customer	\$ 52.06	\$ 48.69

\* Average customers during period is calculated by adding the number of total customers, including reseller customers, at the beginning of the first month of the period and at the end of each month in the period and dividing by the number of months in the period plus one. Acquired and divested customers are included in the calculation on a prorated basis for the amount of time U.S. Cellular included such customers during each period.

(7) Postpay churn rate per month represents the percentage of the postpay customer base that disconnects service each month. Retail postpay churn rate includes only retail customers; total postpay churn rate includes both retail and reseller customers.

### Components of Operating Income

Three Months Ended March 31, (Dollars in thousands)	2008	Increase/ (Decrease)	Percentage Change	2007
Retail service	\$ 834,213	\$ 79,698	10.6%	\$ 754,515
Inbound roaming	54,089	12,821	31.1%	41,268
Long-distance and other	73,792	8,992	13.9%	64,800
Service revenues	962,094	101,511	11.8%	860,583
Equipment sales	75,762	1,671	2.3%	74,091
Total Operating Revenues	1,037,856	103,182	11.0%	934,674

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System operations (excluding Depreciation, amortization and accretion reported below)	191,016	23,732	14.2%	167,284
Cost of equipment sold	174,037	23,293	15.5%	150,744
Selling, general and administrative	407,634	48,768	13.6%	358,866
Depreciation, amortization and accretion	142,530	(3,422)	(2.3)%	145,952
Loss on asset disposals, net	3,673	368	11.1%	3,305
Total Operating Expenses	918,890	92,739	11.2%	826,151
Total Operating Income	\$ 118,966	\$ 10,443	9.6%	\$ 108,523
Operating Income Margin (as a percent of service revenues)		12.4%		12.6%

## Operating Revenues

### *Service revenues*

Service revenues primarily consist of: (i) charges for access, airtime, roaming, recovery of regulatory costs and value-added services, including data products and services, provided to U.S. Cellular's retail customers and to end users through third party resellers ( retail service ); (ii) charges to other wireless carriers whose customers use U.S. Cellular's wireless systems when roaming ( inbound roaming ); (iii) charges for long-distance calls made on U.S. Cellular's systems; and (iv) amounts received from the USF.

The increase in service revenues was due to the growth in the average customer base, which increased 5% to 6.2 million in 2008 from 5.9 million in 2007 and higher monthly service revenue per customer; monthly service revenue per customer averaged \$52.06 in the first three months of 2008 and \$48.69 in the first three months of 2007.

### *Retail service revenues*

The increase in retail service revenues in 2008 was due primarily to growth in U.S. Cellular's average customer base and an increase in average monthly retail revenue per customer.

The increase in the average number of customers each year was primarily driven by the net retail customer additions that U.S. Cellular generated from its marketing distribution channels. The average number of customers also was affected by the timing of acquisitions, divestitures and exchanges.

U.S. Cellular anticipates that its customer base will increase during 2008 as a result of its continuing focus on customer satisfaction, attractively priced service plans, a broader line of handsets and other products, and improvements in distribution. U.S. Cellular believes growth in its customer base will be primarily from capturing wireless users switching from other wireless carriers or increasing the number of multi-device users rather than by adding users that are new to the industry. However, the level of growth in the customer base for 2008 will depend upon U.S. Cellular's ability to attract new customers and retain existing customers in a highly, and increasingly, competitive marketplace. See Overview - 2008 Estimates above for U.S. Cellular's estimate of net retail customer additions for 2008.

The increase in average monthly retail service revenue was driven primarily by growth in revenues from data services and higher regulatory fees such as universal service fund contributions that are billed to customers. Average monthly retail service revenues per customer increased 6% to \$45.14 in 2008 from \$42.69 in 2007.

Monthly local retail minutes of use per customer averaged 948 in 2008 and 783 in 2007. The increase in 2008 was primarily driven by U.S. Cellular's focus on designing sales incentive programs and customer billing rate plans to stimulate overall usage. The impact on retail service revenues of the increase in average monthly minutes of use was offset by a decrease in average revenue per minute of use. The decrease in average revenue per minute of use reflects the impact of increasing competition, which has led to the inclusion of an increasing number of



minutes in package pricing plans and the inclusion of features such as unlimited night and weekend minutes and unlimited mobile-to-mobile minutes in certain pricing plans. U.S. Cellular anticipates that its average revenue per minute of use may continue to decline in the future, reflecting increased competition and continued penetration of the consumer market.

Revenues from data products and services grew significantly year-over-year, totaling \$115.7 million in 2008 and \$77.5 million in 2007, and representing 12% of total service revenues in 2008 compared to 9% of total service revenues in 2007. Such growth, which positively impacted average monthly retail service revenues per customer, reflected customers' continued increasing acceptance and usage of U.S. Cellular's **easyedge**<sup>SM</sup> products and offerings, such as Short Messaging Service ( SMS ) and Smartphone handsets and service.

***Inbound roaming revenues***

The increase in inbound roaming revenues in 2008 was related primarily to an increase in roaming minutes of use. The increase in inbound roaming minutes of use was driven primarily by the overall growth in the number of customers and retail minutes of use per customer throughout the wireless industry, including usage related to data products, leading to an increase in inbound traffic from other wireless carriers.

U.S. Cellular anticipates that inbound roaming minutes of use might continue to grow over the next few years, reflecting continuing industry-wide growth in customers and usage per customer, including increased usage of data services while roaming, but that the rate of growth will decline due to higher penetration, slower overall growth in the consumer wireless market and the consolidation of wireless carriers. U.S. Cellular anticipates that its roaming revenue per minute of use will remain fairly constant over the next few years pursuant to its existing contract rates, but that renewal of these contracts and the negotiation of new contracts will reflect lower rates over time.

***Long-distance and other revenues***

In 2008, the increase reflected a \$9.3 million increase in other revenues, partially offset by a \$0.4 million decrease in long-distance revenues. The growth in other revenues was due primarily to an increase in ETC funds that were received from the USF. In 2008 and 2007, U.S. Cellular was eligible to receive ETC funds in eleven and seven states, respectively; the ETC revenue amounts recorded in 2008 and 2007 were \$30.5 million and \$22.5 million, respectively.

***Equipment sales revenues***

Equipment sales revenues include revenues from sales of handsets and related accessories to both new and existing customers, as well as revenues from sales of handsets to agents. All equipment sales revenues are recorded net of anticipated rebates.

U.S. Cellular continues to offer a competitive line of quality handsets to both new and existing customers. U.S. Cellular's customer retention efforts include offering new handsets at discounted prices to existing customers as the expiration date of the customer's service contract approaches. U.S. Cellular also continues to sell handsets to agents; this practice enables U.S. Cellular to provide better control over the quality of handsets sold to its customers, establish roaming preferences and earn quantity discounts from handset manufacturers which are passed along to agents. U.S. Cellular anticipates that it will continue to sell handsets to agents in the future.

The increase in 2008 equipment sales revenues was driven by an increase of 3% in average revenue per handset sold, primarily reflecting the sale of more expensive handsets with expanded capabilities.

**Operating Expenses**

*System operations expenses (excluding Depreciation, amortization, and accretion)*

System operations expenses (excluding Depreciation, amortization, and accretion) include charges from wireline telecommunications service providers for U.S. Cellular's customers' use of their facilities, costs related to local interconnection to the wireline network, charges for maintenance of U.S. Cellular's network, long-distance charges, outbound roaming expenses and payments to third-party data product and platform developers. Key components of the overall increases in system operations expenses were as follows:

- maintenance, utility and cell site expenses increased \$12.1 million, or 18%, in 2008, primarily driven by increases in the number of cell sites within U.S. Cellular's network, resulting in higher cell site rent expense, and software maintenance costs to support rapidly growing data needs. The number of cell sites totaled 6,452 in 2008 and 6,004 in 2007, as U.S. Cellular continued to grow by expanding and enhancing coverage in its existing markets and also through acquisitions of existing wireless operations;
- expenses incurred when U.S. Cellular's customers used other carriers' networks while roaming increased \$8.1 million, or 22%, in 2008. The increase is due to an increase in roaming minutes of use driven by customer migration to national and wide area plans; and

- the cost of network usage on U.S. Cellular's systems increased \$3.6 million, or 6%, in 2008, as total minutes used on U.S. Cellular's systems increased 23% in 2008, primarily driven by continued migration to pricing plans with a larger number of packaged minutes, mostly offset by the ongoing reduction in the per-minute cost of usage for U.S. Cellular's network. In addition, data network and developer costs increased driven by the increase in data usage.

Management expects total system operations expenses to increase over the next few years, driven by the following factors:

- increases in the number of cell sites and other network facilities within U.S. Cellular's systems as it continues to add capacity and enhance quality in most markets and continues development activities in recently launched markets; and
- increases in minutes of use, both on U.S. Cellular's network and by U.S. Cellular's customers on other carriers' networks when roaming.

These factors are expected to be partially offset by anticipated decreases in the per-minute cost of usage both on U.S. Cellular's network and on other carriers' networks.

#### *Cost of equipment sold*

The increase in Cost of equipment sold was due primarily to a 16% increase in the average cost per handset due to a shift to the sale of more expensive handsets with expanded capabilities. U.S. Cellular believes that the expanded capabilities will drive increases in data revenues.

#### *Selling, general and administrative expenses*

Selling, general and administrative expenses primarily consist of salaries, commissions and expenses of field sales and retail personnel and facilities; telesales department salaries and expenses; agent commissions and related expenses; corporate marketing and merchandise management; advertising; and public relations expenses. Selling, general and administrative expenses also include the costs of operating U.S. Cellular's customer care centers and the majority of U.S. Cellular's corporate expenses.

The increase in selling, general and administrative expenses in 2008 was due primarily to higher expenses associated with acquiring, serving and retaining customers, driven in part by an increase in U.S. Cellular's customer base in 2008; increased regulatory charges and taxes also are a factor. Key components of the increases in selling, general and administrative expenses were as follows:

- advertising expenses increased \$15.7 million, or 38%, in 2008, primarily due to an increase in media purchases;
- other selling and marketing expenses increased \$8.9 million, or 7%, in 2008, reflecting more retail sales associates, higher commissions due to a greater number of customer renewal transactions and higher retail facility expenses; and
- general and administrative expenses increased \$24.2 million, or 13%, in 2008, due to increases related to bad debts expense, reflecting both higher revenues and slightly higher bad debts experience as a percent of revenues, federal universal service fund contributions and other regulatory fees and taxes due to an increase in the contribution rate and an increase in service revenues, and increases in expenses related to the operations of U.S. Cellular's regional support offices, primarily due to the increase in the customer base.

*Depreciation expense*

Depreciation expense was relatively flat compared to the prior year.

See [Financial Resources](#) and [Liquidity and Capital Resources](#) for further discussions of U.S. Cellular's capital expenditures.

***Amortization and accretion expenses***

Amortization expense decreased \$3.3 million in 2008, primarily due to a customer list becoming fully amortized in April 2007.

In accordance with SFAS No. 143, *Accounting for Asset Retirement Obligations* ( SFAS 143 ), U.S. Cellular accretes liabilities for future remediation obligations associated with leased properties. Such accretion expense totaled \$2.3 million in 2008 and 2007, respectively.

***Loss on asset disposals, net***

These amounts represent charges related to disposals of assets, trade-ins of older assets for replacement assets and other retirements of assets from service.

**2008 Estimates**

U.S. Cellular expects the above industry, competitive and regulatory factors to impact revenues, operating income and operating income margin for the next several quarters. Any changes in the above factors, as well as the effects of other drivers of U.S. Cellular's operating results, may cause revenues, operating income and operating income margin to fluctuate over the next several quarters.

The following are U.S. Cellular's estimates of full year 2008 net retail customer additions; service revenues; operating income; depreciation, amortization and accretion expenses; and capital expenditures. Such estimates represent U.S. Cellular's views as of the date of the filing of U.S. Cellular's Form 10-Q for the three months ended March 31, 2008. Such forward-looking statements should not be assumed to be accurate as of any future date. U.S. Cellular undertakes no duty to update such information whether as a result of new information, future events or otherwise. There can be no assurance that final results will not differ materially from such estimated results.

	<b>2008</b>	<b>2007</b>
	<b>Estimated Results</b>	<b>Actual Results</b>
Net retail customer additions	200,000-275,000	333,000
Service revenues	\$3,900-\$4,000 million	\$3,679.2 million
Operating income	\$435-\$510 million	\$396.2 million
Depreciation, amortization and accretion expenses(1)	Approx. \$615 million	\$637.1 million
Capital expenditures	\$565-\$615 million	\$565.5 million

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(1) Includes losses on exchange and disposals of assets.



**RESULTS OF OPERATIONS WIRELINE**

TDS operates its wireline operations through TDS Telecommunications Corporation ( TDS Telecom ), a wholly-owned subsidiary. TDS Telecom served 1,193,800 equivalent access lines at March 31, 2008, a decrease of 25,800 lines from the 1,219,600 equivalent access lines served at March 31, 2007. Equivalent access lines are the sum of the physical access lines and high-capacity data lines adjusted to estimate the equivalent number of physical access lines in terms of capacity. A physical access line is the individual circuit connecting a customer to a telephone company's central office facilities. Each digital subscriber line ( DSL ) is treated as an equivalent line in addition to a voice line that may operate on the same copper loop.

TDS Telecom provides services through its ILEC and CLEC operations. An ILEC is an independent local telephone company that formerly had the exclusive right and responsibility to provide local transmission and switching services in its designated service territory. CLEC depicts companies that enter the operating areas of incumbent local exchange telephone companies to offer local exchange and other telephone services.

TDS Telecom's ILEC subsidiaries served 767,100 equivalent access lines at March 31, 2008, an increase of 3,700 lines from the 763,400 equivalent access lines served at March 31, 2007. Acquisitions added 1,100 equivalent access lines in 2008.

TDS Telecom's CLEC served 426,700 equivalent access lines at March 31, 2008, a decrease of 29,500 lines from the 456,200 served at March 31, 2007. The decline in 2008 is the result of a continual shift in focus from residential to commercial customers.

The following table summarizes operating data for TDS Telecom's ILEC and CLEC operations:

<b>As of or at March 31,</b>	<b>2008</b>	<b>2007</b>
<b>ILEC</b>		
Equivalent access lines	767,100	763,400
Access lines	579,200	610,300
Digital subscriber line (DSL) accounts	154,800	118,000
Dial-up Internet service accounts	49,000	71,100
Long-distance customers	344,900	343,800
<b>CLEC</b>		
Equivalent access lines	426,700	456,200
Digital subscriber line (DSL) accounts	43,100	42,600
Dial-up Internet service accounts	6,800	10,200



**TDS Telecom****Components of Operating Income**

Three months ended March 31, (Dollars in thousands)	2008	Increase/ (Decrease)	Percentage Change	2007
<b>Operating revenues</b>				
ILEC revenues	\$ 151,815	\$ (5,777)	(3.7)%	\$ 157,592
CLEC revenues	56,129	(5,221)	(8.5)%	61,350
Intra-company elimination	(1,868)	(548)	(41.5)%	(1,320)
Telecom operating revenues	206,076	(11,546)	(5.3)%	217,622
<b>Operating expenses</b>				
ILEC expenses	120,918	(4,084)	(3.3)%	125,002
CLEC expenses	49,243	(7,176)	(12.7)%	56,419
Intra-company elimination	(1,868)	(548)	(41.5)%	(1,320)
Telecom operating expenses	168,293	(11,808)	(6.6)%	180,101
<b>TDS Telecom operating income</b>	<b>\$ 37,783</b>	<b>\$ 262</b>	<b>0.7%</b>	<b>\$ 37,521</b>

**Operating revenues**

Operating revenues decreased in 2008 primarily due to a decline in ILEC and CLEC physical access lines, lower rates from bundling promotions and a decrease in network usage by inter-exchange carriers. These decreases were partially offset by the increase in ILEC data revenues.

**Operating expenses**

Operating expenses decreased in 2008 primarily due to reduced contributions to certain ILEC national network access pools, a reduction in cost of services for our CLEC operations due to settlements reached in the first quarter of 2008 and various process improvements implemented by TDS Telecom.

**2008 Guidance**

The following are estimates of full-year 2008 operating revenues, operating income, depreciation, amortization and accretion expenses, and capital expenditures. Such forward-looking statements should not be assumed to be accurate as of any future date. Such estimates represent TDS Telecom's view as of the date of filing of TDS Form 10-Q for the three months ended March 31, 2008. TDS undertakes no duty to update such information whether as a result of new information, future events or otherwise. There can be no assurance that final results will not differ materially from these estimated results.

	<b>2008</b>	<b>2007</b>
	<b>Estimated Results</b>	<b>Actual Results</b>
	<b>(Dollars in millions)</b>	
<b>ILEC and CLEC Operations:</b>		
Operating revenues	\$810 - \$840	\$860.2
Operating income	\$110 - \$140	\$141.2
Depreciation, amortization and accretion expenses	Approx. \$160	\$157.5
Capital expenditures	\$130 - \$160	\$128.2

**ILEC Operations****Components of Operating Income**

<b>Quarter Ended March 31, (Dollars in thousands)</b>	<b>2008</b>	<b>Increase/ (Decrease)</b>	<b>Percentage Change</b>	<b>2007</b>
Voice revenues	\$ 51,576	\$ (5,946)	(10.3)%	\$ 57,522
Data revenues	21,186	4,764	29.0%	16,422
Network access revenues	70,082	(6,091)	(8.0)%	76,173
Miscellaneous revenues	8,971	1,496	20.0%	7,475
<b>Total operating revenues</b>	<b>151,815</b>	<b>(5,777)</b>	<b>(3.7)%</b>	<b>157,592</b>
Cost of services and products (excluding depreciation, amortization and accretion reported below)	44,834	(4,263)	(8.7)%	49,097
Selling, general and administrative expense	42,481	622	1.5%	41,859
Depreciation, amortization and accretion	33,624	(422)	(1.2)%	34,046
(Gain) loss on asset disposals, net	(21)	(21)	N/M	
<b>Total operating expenses</b>	<b>120,918</b>	<b>(4,084)</b>	<b>(3.3)%</b>	<b>125,002</b>
<b>Total operating income</b>	<b>\$ 30,897</b>	<b>\$ (1,693)</b>	<b>(5.2)%</b>	<b>\$ 32,590</b>

N/M Not meaningful

**Operating Revenues**

**Voice revenues** (charges for the provision of local telephone exchange service and reselling long-distance service).

The decline in voice revenues in the first quarter of 2008 was primarily due to a 5% decline in physical access lines which negatively impacted local service revenues by \$2.2 million. Second line disconnections accounted for 18% of this decline and were significantly influenced by subscribers converting to DSL service. Additionally, local service and long-distance revenues decreased during the quarter by \$3.0 million due to an increase in bundled offerings, which allowed subscribers to bundle product suite offerings such as local service, long-distance, advance calling features and voice messaging services at a reduced bundled rate.

As discussed in Note 2 Summary of Significant Accounting Policies to the Consolidated Financial Statements, TDS Telecom's ILEC operations discontinued the application of Statement of Financial Accounting Standards No. 71, *Accounting for the Effects of Certain Types of Regulation* (SFAS 71) in the third quarter of 2007. The discontinuance of SFAS 71 further decreased voice revenues by \$0.7 million from 2007 to 2008. Under SFAS 71, telecommunications companies were required to recognize activation fees as revenue upon subscriber's connection to TDS Telecom's local network. Upon discontinuance of SFAS 71, activation fees are required to be deferred over the estimated life of the subscriber.

*Data revenues* (charges for providing Internet and other data related services).

The growth in data revenues for 2008 was primarily due to the growth in DSL customers which grew by 31% (36,800 subscribers) and accounted for increased revenues of \$3.7 million. Additionally, new data service offerings generated an additional \$0.5 million in revenues during the first quarter of 2008. These increases were partially offset by a \$0.5 million decline in data revenues from dial-up Internet subscribers primarily related to subscriber losses somewhat offset by higher dial-up rates.

**Network access revenues** (compensation from other telecommunication carriers for carrying long-distance traffic on TDS Telecom's local telephone network and for local interconnection).

Network access revenues declined \$3.2 million in 2008 as compared to 2007 due to a 16% decline in intra-state minutes of use. In addition, TDS Telecom ILEC operations elected in July of 2007 to exit certain national network access pools which resulted in an additional \$2.0 million reduction in access revenues for the first quarter of 2008. The decision to exit these pools correspondingly reduced operating expenses by \$3.7 million, resulting in a positive impact on operating income of \$1.7 million for the quarter.

**Miscellaneous revenues** (charges for leasing, selling, installing and maintaining customer premise equipment, providing billing and collection services, and selling of direct broadcast satellite service as well as other miscellaneous services).

The increase in miscellaneous revenues was primarily due to the discontinuance of the application of SFAS 71 in the third quarter of 2007. Under SFAS 71, telecommunications companies were required for regulatory purposes to report bad debts expense as a reduction of revenues. Upon discontinuance of SFAS 71, bad debts expense is recorded as a selling, general and administrative expense. For the three months ended March 31, 2007, revenues were reduced by \$1.1 million for bad debts expense.

## **Operating Expenses**

### ***Cost of services and products***

The reduction in cost of services and products expense in 2008 was primarily due to TDS Telecom's election to exit certain national network access pools in July of 2007. As noted above under network access revenues, this decision decreased revenues \$2.0 million in the first quarter of 2008 while also reducing contributions to the pool by \$3.7 million, resulting in a positive impact on operating income of \$1.7 million for the quarter.

### ***Selling, general and administrative expenses***

The increase in selling, general and administrative expense in 2008 is primarily related to TDS Telecom's discontinuance of the application of SFAS 71 in the third quarter of 2007. As noted in miscellaneous revenues section above, TDS Telecom's discontinuance of the application of SFAS 71 resulted in a reclassification of bad debts expense from miscellaneous revenues (where it was shown as a reduction in revenues) to an increase in selling, general and administrative expense. In 2008, TDS Telecom ILEC operations recorded \$2.2 million in bad debts expense. Additionally, expenses decreased \$1.6 million primarily due to process improvements implemented by TDS Telecom.

## **CLEC Operations**

## Components of Operating Income

Three months ended March 31, (Dollars in thousands)	2008	Increase/ (Decrease)	Percentage Change	2007
Retail revenue	\$ 51,761	\$ (2,490)	(4.6)%	\$ 54,251
Wholesale revenue	4,368	(2,731)	(38.5)%	7,099
Total operating revenues	56,129	(5,221)	(8.5)%	61,350
Cost of services and products (excluding depreciation, amortization and accretion reported below)	26,333	(2,624)	(9.1)%	28,957
Selling, general and administrative expense	17,026	(4,577)	(21.2)%	21,603
Depreciation, amortization and accretion	5,884	25	0.4%	5,859
Total operating expenses	49,243	(7,176)	(12.7)%	56,419
Total operating income	\$ 6,886	\$ 1,955	39.6%	\$ 4,931

## Operating Revenues

*Retail revenues* (charges to CLEC customers for the provision of direct telecommunication services):

CLEC equivalent access lines declined 6% from March 31, 2007 to March 31, 2008 which resulted in a decrease in retail revenues of \$3.3 million. Residential equivalent access lines decreased 18% with commercial equivalent access lines decreasing less than 1% as the CLEC operations continues to implement its strategic shift towards serving primarily a commercial subscriber base. Partially offsetting this decline was an increase in revenues of \$0.8 million for the quarter due to higher average revenue per subscriber.

*Wholesale revenues* (charges to other carriers for utilizing TDS Telecom's network infrastructure):

Wholesale revenues were lower in 2008 than for the same period in 2007 due to two positive settlements with inter-exchange carriers that were received and recorded in 2007 for \$1.0 million. Additionally minutes of use declined 25% in 2008 decreasing revenues by \$1.5 million with the remainder of the decrease due to lower average wholesale rates.

## Operating Expenses

*Cost of services and products*

The decrease in 2008 was due to settlements with two inter-exchange carriers related to pricing of certain services. The settlement reduced the cost of services for the first quarter of 2008 by \$2.4 million.

*Selling, general and administrative expense*

The decrease in 2008 was primarily due to a decrease of \$2.4 million in advertising expenses and commissions as TDS Telecom continues to realign its expenditures to focus mainly on its commercial markets. Additionally, expenditures decreased \$1.6 million in 2008 due to process improvements implemented by TDS Telecom.

**RECENT ACCOUNTING PRONOUNCEMENTS**

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* ( SFAS 157 ). SFAS 157 defines fair value as used in numerous accounting pronouncements, establishes a framework for measuring fair value in U.S. GAAP, and expands disclosures related to the use of fair value measures in financial statements. SFAS 157 does not expand the use of fair value measurements in financial statements, but standardizes its definition and guidance in U.S. GAAP. SFAS 157 emphasizes that fair value is a market-based measurement and not an entity-specific measurement, based on an exchange transaction in which the entity sells an asset or transfers a liability (exit price). SFAS 157 establishes a fair value hierarchy from observable market data as the highest level to an entity's own fair value assumptions about market participant assumptions as the lowest level. In February 2008, the FASB issued FSP FAS 157-2 to defer the effective date of SFAS 157 for all nonfinancial assets and liabilities, except those items recognized or disclosed at fair value on an annual or more frequently recurring basis, until years beginning after November 15, 2008. TDS adopted SFAS 157 for its financial assets and liabilities effective January 1, 2008 (See Note 5 - Fair Value Measurements in the Notes to the Consolidated Financial Statements for more information related to TDS' adoption of SFAS 157 for its financial assets and liabilities). TDS is currently reviewing the adoption requirements related to its nonfinancial assets and liabilities and has not yet determined the impact, if any, on its financial position or results of operations.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), *Business Combinations - a replacement of FASB Statement No. 141* ( SFAS 141(R) ). SFAS 141(R) replaces FASB Statement No. 141, *Business Combinations* ( SFAS 141 ). SFAS 141(R) retains the underlying concept of SFAS 141 in that all business combinations are still required to be accounted for at fair value under the acquisition method, a method that requires the acquirer to measure and recognize the acquiree on an entire entity basis and recognize the assets acquired and liabilities assumed at their fair values as of the date of acquisition. However, SFAS 141(R) changes the method of applying the acquisition method in a number of significant aspects, such as requiring the expensing of transaction costs previously capitalized and requiring the accrual at fair value of certain contractual and noncontractual contingencies. SFAS 141(R) is effective on a prospective basis for all business combinations for which the acquisition date is on or after January 1, 2009, with the exception of the accounting for valuation allowances on deferred taxes and acquired tax contingencies. SFAS 141(R) amends SFAS No. 109, *Accounting for Income Taxes*, such that adjustments made to valuation allowances on deferred taxes and acquired tax contingencies associated with acquisitions that closed prior to the effective date of SFAS 141(R) would also apply the provisions of SFAS 141(R). TDS is currently reviewing the requirements of SFAS 141(R) and has not yet determined the impact, if any, on its financial position or results of operations.

In December 2007, the FASB issued SFAS No. 160, *Consolidated Financial Statements, Including Accounting and Reporting of Noncontrolling Interests in Subsidiaries - a replacement of ARB No. 51* ( SFAS 160 ). SFAS 160 amends Accounting Research Bulletin No. 51, *Consolidated Financial Statements*, as amended by FASB Statement No. 94, *Consolidation of All Majority-Owned Subsidiaries*, to establish new standards that will govern the accounting and reporting of (1) noncontrolling interests (commonly referred to as minority interests) in partially owned consolidated subsidiaries and (2) the loss of control of subsidiaries. It also establishes that once control of a subsidiary is obtained, changes in ownership interests in that subsidiary that do not result in a loss of control shall be accounted for as equity transactions, not as step acquisitions under SFAS 141. SFAS 160 is effective on a prospective basis for TDS' 2009 financial statements, except for the presentation and disclosure requirements, which will be applied retrospectively. TDS is currently reviewing the requirements of SFAS 160 and has not yet determined the impact, if any, on its financial position or results of operations.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities - an amendment of FASB Statement No. 133* ( SFAS 161 ). SFAS 161 expands the disclosure requirements for derivative instruments and hedging activities. The Statement specifically requires entities to provide enhanced disclosures addressing the following (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under Statement 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. SFAS 161 is effective for TDS' 2009 financial statements. TDS' current derivative instruments are expected to mature prior to the effective date of SFAS 161, and therefore, TDS does not expect SFAS 161 to have an impact on its disclosures.





In April 2008, the FASB issued FSP FAS 142-3, *Determination of the Useful Life of Intangible Assets* ( FSP FAS 142-3 ). FSP FAS 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, *Goodwill and Other Intangible Assets* ( SFAS 142 ). The intent of FSP FAS 142-3 is to improve the consistency between the useful life of a recognized intangible asset under SFAS 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS 141(R) and other applicable accounting literature. FSP FAS 142-3 is effective for TDS' 2009 financial statements. TDS does not anticipate that the adoption of FSP FAS 142-3 will have an impact on its financial position or results of operations.

## FINANCIAL RESOURCES

TDS operates a capital- and marketing-intensive business. In recent years, TDS has generated cash from its operating activities, received cash proceeds from divestitures, used short-term credit facilities and used long-term debt financing to fund its acquisitions including licenses, construction costs and operating expenses. TDS anticipates further increases in wireless customers, revenues and operating expenses, cash flows from operating activities and capital expenditures in the future. Cash flows may fluctuate from quarter to quarter and from year to year due to seasonality, capital expenditures and other factors.

The following table provides a summary of TDS' cash flow activities for the periods shown:

	Three Months Ended March 31,	
	2008	2007
	(Dollars in thousands)	
Cash flows from (used in)		
Operating activities	\$ 268,999	\$ 286,468
Investing activities	(184,322)	(146,429)
Financing activities	(49,337)	23,039
Net increase (decrease) in cash and cash equivalents	\$ 35,340	\$ 163,078

### Cash Flows from Operating Activities

TDS generated cash flows from operating activities of \$269.0 million and \$286.5 million in 2008 and 2007, respectively. Excluding changes in assets and liabilities from operations, cash flows from operating activities totaled \$194.7 million in 2008 and \$254.0 million in 2007. Changes in assets and liabilities from operations generated \$74.3 million in 2008 and \$32.5 million in 2007, reflecting increases in accrued taxes balances offset by changes in other working capital accounts.

The following table is a summary of the components of cash flows from operating activities:

	Three Months Ended March 31,	
	2008	2007
	(Dollars in thousands)	
Net income	\$ 73,487	\$ 219,325

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Adjustments to reconcile net income to net cash provided by operating activities	121,246	34,639
	194,733	253,964
Changes in assets and liabilities	74,266	32,504
	\$ 268,999	\$ 286,468

### **Cash Flows from Investing Activities**

TDS makes substantial investments each year to acquire wireless licenses and properties and to construct, operate and upgrade modern high-quality communications networks and facilities as a basis for creating long-term value for shareholders. In recent years, rapid changes in technology and new opportunities have required substantial investments in revenue enhancing and cost reducing upgrades to TDS' networks.

Cash used for property, plant and equipment and system development totaled \$132.5 million in 2008 and \$130.7 million in 2007. The primary purpose of TDS' construction and expansion expenditures is to provide for customer growth, to upgrade service, and to take advantage of service-enhancing and cost-reducing technological developments in order to maintain competitive services. U.S. Cellular's capital additions totaled \$111.7 million in 2008 and \$109.7 million in 2007 representing expenditures to construct cell sites, increase capacity in existing cell sites and switches, remodel new and existing retail stores and continue the development of U.S. Cellular's office systems. TDS Telecom's capital expenditures for its ILEC operations totaled \$14.6 million in 2008 and \$16.1 million in 2007 representing expenditures for switch modernization and outside plant facilities to maintain and enhance the quality of service and to offer new services. TDS Telecom's capital expenditures for its CLEC operations totaled \$3.4 million in 2008 and \$2.6 million in 2007 for switching and other network facilities. Corporate and other capital expenditures totaled \$2.7 million in 2008 and \$2.3 million in 2007.

Acquisitions required \$107.7 million in 2008 and \$18.2 million in 2007. TDS' 2008 acquisitions included primarily U.S. Cellular's capital contribution of \$97.0 million to King Street Wireless and its general partner, which was used to pay the FCC an initial deposit of \$97.0 million to allow it to participate in Auction 73. See Note 3 - Acquisitions, Divestitures and Exchanges in the Notes to the Consolidated Financial Statements for details of all transactions completed in 2008.

TDS received \$48.6 million in cash proceeds upon the sale of Deutsche Telecom ordinary shares that occurred in the first quarter of 2008 in conjunction with the settlements of the variable prepaid forward contracts related to such shares. See Note 10 - Marketable Equity Securities and Variable Prepaid Forward Contracts in the Notes to the Consolidated Financial Statements for additional details on these settlements.

### **Cash Flows from Financing Activities**

Cash flows from financing activities primarily reflect issuances and repayments of short-term debt, proceeds from issuance of long-term debt, repayments of long-term debt and repurchases of common shares. TDS has used short-term debt to finance acquisitions, to repurchase common shares and for other general corporate purposes. Cash flows from operating activities, proceeds from forward contracts and, from time to time, the sale of non-strategic cellular and other investments have been used to reduce short-term debt. In addition, from time to time, TDS has used proceeds from the issuance of long-term debt to reduce short-term debt.

There were no short-term borrowings on revolving lines of credit in 2008. The borrowings totaled \$25.0 million in the first quarter of 2007.

Proceeds from re-issuances of TDS and U.S. Cellular treasury shares in connection with employee benefit plans, net of tax payments, provided \$1.4 million in 2008 and \$12.6 million in 2007.

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Dividends of \$12.0 million were declared but not paid on TDS Common and Special Common Shares as of March 31, 2008, and therefore not reflected as a cash outflow in the first quarter of 2008. The dividends were paid in April 2008. Dividends paid on TDS Common Shares and Preferred Shares required \$11.4 million in the first quarter of 2007.

Payment for repurchase of TDS Special Common Shares required \$40.6 million in 2008. TDS did not repurchase any Special Common Shares in 2007. Payment for repurchase of U.S. Cellular Common Shares required \$10.8 million in 2008. U.S. Cellular did not repurchase any Common Shares in the first quarter of 2007. U.S. Cellular also received \$4.6 million in 2008 from an investment banking firm for the final settlement of the accelerated share repurchases made in 2007. See Note 13 TDS Special Common and U.S. Cellular Common Share Repurchases in the Notes to Consolidated Financial Statements.

## LIQUIDITY AND CAPITAL RESOURCES

TDS believes that cash flows from operating activities, existing cash balances and funds available under the revolving credit facilities provide substantial financial flexibility for TDS to meet both its short- and long-term needs for the foreseeable future. In addition, TDS and its subsidiaries may have access to public and private capital markets to help meet their long-term financing needs.

However, the availability of external financial resources is dependent on economic events, business developments, technological changes, financial conditions or other factors, some of which are not in TDS' control. If at any time financing is not available on terms acceptable to TDS, TDS might be required to reduce its business development and capital expenditure plans, which could have a material adverse effect on its business and financial condition. TDS cannot provide assurances that circumstances that could have a material adverse effect on TDS' liquidity or capital resources will not occur. Economic downturns, changes in financial markets or other factors could affect TDS' liquidity and availability of capital resources. Uncertainty of access to capital for telecommunications companies, deterioration in the capital markets, other changes in market conditions or other factors could limit or restrict the availability of financing on terms and prices acceptable to TDS, which could require TDS to reduce its construction, development, acquisition and Special Common Share repurchase programs.

### Cash and Cash Equivalents

At March 31, 2008, TDS had \$1,209.8 million in cash and cash equivalents, which include cash and short-term, highly liquid investments with original maturities of three months or less. The primary objective of TDS' cash and cash equivalents investment activities is to preserve principal. At March 31, 2008, TDS invested substantially all of its cash balances in money market funds that invested exclusively in short-term U.S. Treasury securities. Management believes that the credit risk associated with these investments is minimal.

### Revolving Credit Facilities

TDS has a \$600 million revolving credit facility available for general corporate purposes. At March 31, 2008, there were no outstanding borrowings. Outstanding letters of credit were \$3.4 million, leaving \$596.6 million available for use. Borrowings under the revolving credit facility bear interest at the London InterBank Offered Rate (LIBOR) plus a contractual spread based on TDS' credit rating. At March 31, 2008, the contractual spread was 75 basis points. TDS may select borrowing periods of either seven days or one, two, three or six months (the one-month LIBOR was 2.70% at March 31, 2008). If TDS provides less than two days' notice of intent to borrow, interest on borrowings is at the prime rate less 50 basis points (the prime rate was 5.25% at March 31, 2008). This credit facility expires in December 2009.

TDS also has \$25 million of direct bank lines of credit at March 31, 2008, all of which were unused. The terms of the direct lines of credit bear negotiated interest rates up to the prime rate.

U.S. Cellular has a \$700 million revolving credit facility available for general corporate purposes. At March 31, 2008, there were no outstanding borrowings and outstanding letters of credit were \$0.2 million, leaving \$699.8 million available for use. Borrowings under the revolving credit facility bear interest at the LIBOR plus a contractual spread based on U.S. Cellular's credit rating. At March 31, 2008, the contractual spread was 75 basis points. U.S. Cellular may select borrowing periods of either seven days or one, two, three or six months (the one-month LIBOR was 2.70% at March 31, 2008). If U.S. Cellular provides less than two days' notice of intent to borrow, interest on borrowings is the prime rate less 50

basis points (the prime rate was 5.25% at March 31, 2008). This credit facility expires in December 2009.

On April 15, 2008, U.S. Cellular borrowed \$100 million under its revolving credit facility. These proceeds along with additional cash on hand of \$103.5 million were contributed to King Street Wireless and its general partner. King Street Wireless in turn paid \$203.5 million to the FCC in order to fulfill its remaining obligation incurred upon the purchase of licenses in Auction 73. See Note 3 - Acquisitions, Divestitures and Exchanges in the Notes to the Consolidated Financial Statements for more information on Auction 73. U.S. Cellular is a limited partner of King Street Wireless and consolidates this entity pursuant to the provisions of FASB Interpretation No. 46(R), *Consolidation of Variable Interest Entities, an interpretation of ARB No. 51 ( FIN 46(R) )*. See Note 4 - Variable Interest Entities in the Notes to the Consolidated Financial Statements for more information on King Street Wireless. U.S. Cellular anticipates repaying the amount borrowed from future cash flows from operations and/or long-term debt financing.

TDS and U.S. Cellular's interest cost on their revolving credit facilities would increase if their current credit ratings from either Standard & Poor's Rating Services (Standard & Poor's) or Moody's Investor Service (Moody's) were lowered. However, the credit facilities would not cease to be available or accelerate solely as a result of a decline in TDS or U.S. Cellular's credit rating. A downgrade in TDS or U.S. Cellular's credit rating could adversely affect their ability to renew existing, or obtain access to new credit facilities in the future. Currently, TDS and U.S. Cellular's credit ratings are as follows:

Moody's (issued April 3, 2008)	Baa3	- under review for possible upgrade
Standard & Poor's (issued March 13, 2008)	BBB-	- with positive outlook
Fitch Ratings (issued August 16, 2007)	BBB+	- stable outlook

On April 3, 2008, Moody's changed its outlook on TDS and U.S. Cellular's credit rating to under review for possible upgrade from stable.

On March 13, 2008, Standard & Poor's upgraded its credit rating on TDS and U.S. Cellular to BBB- with positive outlook from BB+ with developing outlook.

On August 16, 2007, Fitch Ratings changed its outlook on TDS and U.S. Cellular's credit rating to stable from ratings watch negative.

The maturity dates of any borrowings under the TDS and U.S. Cellular revolving credit facilities would accelerate in the event of a change in control.

The continued availability of the revolving credit facilities requires TDS and U.S. Cellular to comply with certain negative and affirmative covenants, maintain certain financial ratios and make representations regarding certain matters at the time of each borrowing. TDS and U.S. Cellular believe they were in compliance as of March 31, 2008 with all covenants and other requirements set forth in the revolving credit facilities and lines of credit.

### Long-term Financing

TDS believes it and its subsidiaries were in compliance as of March 31, 2008 with all covenants and other requirements set forth in long-term debt indentures. Such indentures do not contain any provisions resulting in acceleration of the maturities of outstanding debt in the event of a change in TDS credit rating. However, a downgrade in TDS credit rating could adversely affect its ability to obtain long-term debt financing in the future.

U.S. Cellular expects to file a shelf registration statement on Form S-3 with the Securities and Exchange Commission (SEC) in May 2008, shortly after the filing of this Quarterly Report on Form 10-Q. Because U.S. Cellular is a well-known seasoned issuer as defined in Rule 405 under the Securities Act of 1933, as amended, such registration statement will become automatically effective upon filing with the SEC and will register an indeterminate amount of debt securities. Under such automatic shelf registration statement, U.S. Cellular will be permitted, at any time and from time to time, to sell senior debt securities in one or more offerings in an indeterminate amount. U.S. Cellular does not have any set time frame for issuing any specific amount of debt securities under such registration statement at the present time. U.S. Cellular's ability to



complete an offering pursuant to such shelf registration statement will be dependent on market conditions and other factors at the time.

**Marketable Equity Securities and Variable Prepaid Forward Contracts**

TDS holds marketable equity securities, which were the result of sales or trades of non-strategic assets. TDS also has variable prepaid forward contracts ( forward contracts ) with counterparties in connection with its Deutsche Telekom securities. The principal amount of the forward contracts was accounted for as a loan. The forward contracts contain embedded collars that are bifurcated and receive separate accounting treatment in accordance with SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*. TDS believes that it was in compliance as of March 31, 2008 with all covenants and other requirements set forth in its forward contracts.

See Note 10 - Marketable Equity Securities and Variable Prepaid Forward Contracts in the Notes to the Consolidated Financial Statements for further details on the marketable equity securities and forward contracts.

The remaining Deutsche Telekom forward contracts were scheduled to mature from May 2008 to September 2008. Accordingly, such Deutsche Telekom ordinary shares are classified as Current Assets and the related forward contracts and derivative liability is classified as Current Liabilities in the Consolidated Balance Sheet as of March 31, 2008.

Under the terms of the forward contracts, TDS will continue to own the contracted shares and will receive dividends paid on such contracted shares, if any. The forward contracts may be settled in Deutsche Telekom shares or in cash, pursuant to formulas that collar the price of the shares. The collars effectively limit downside risk and upside potential on the contracted shares. The collars typically are adjusted contractually for any changes in dividends on the underlying shares. If the dividend increases, the collar's upside potential typically is reduced. If the dividend decreases, the collar's upside potential typically is increased. If TDS elects to settle in shares, it will be required to deliver the number of shares of the contracted security determined pursuant to the formula. If shares are delivered in the settlement of the forward contract, TDS would incur a current tax liability at the time of delivery based on the difference between the tax basis of the marketable equity securities delivered and the net amount realized through maturity. If TDS elects to settle in cash, it will be required to pay an amount in cash equal to the fair market value of the number of shares determined pursuant to the formula.

The following table details the outstanding forward contracts related to the Deutsche Telekom stock and maturity dates of the contracts as of March 31, 2008.

Marketable Equity Security	Shares	Loan Amounts (Dollars in thousands)	Maturity Date
Deutsche Telekom AG	38,000,000	\$ 452,105	Second Quarter 2008
Unaccreted Discount		(1,541)	
		450,564	
Deutsche Telekom AG	17,969,689	222,297	Third Quarter 2008
Unaccreted Discount		(3,635)	
		218,662	
		\$ 669,226	

In April and May 2008, TDS settled or agreed to settle forward contracts related to 46,969,689 Deutsche Telekom ordinary shares. The forward contracts related to the 46,969,689 Deutsche Telekom shares were or will be settled prior to their scheduled maturity dates in May 2008 through September 2008. See Note 17 Subsequent Events, in the Notes to the Consolidated Financial Statements for details on the early settlement of such forward contracts.

On July 30, 2007, Rural Cellular Corporation ( RCCC ) announced that Verizon Wireless agreed to purchase the outstanding shares of RCCC for \$45 per share in cash. The acquisition is expected to close in 2008. If the transaction closes, TDS will receive approximately \$32.4 million in cash, recognize a \$31.7 million pre-tax gain and cease to own any interest in RCCC.

### Capital Expenditures

U.S. Cellular's anticipated capital expenditures for 2008 primarily reflect plans for construction, system expansion and the build-out of certain licensed areas. U.S. Cellular plans to finance its construction program using cash flows from operating activities and short-term financing. U.S. Cellular's estimated capital spending for 2008 is expected to range from \$565 million to \$615 million. These expenditures primarily address the following needs:

- expand and enhance U.S. Cellular's coverage in its service areas.
- provide additional capacity to accommodate increased network usage by current customers.
- enhance U.S. Cellular's retail store network and office systems.

TDS Telecom's anticipated capital spending for 2008 is expected to range from \$130 to \$160 million to provide for normal growth and to upgrade plant and equipment to provide enhanced services.

### **Acquisitions, Exchanges and Divestitures**

TDS assesses its existing wireless and wireline interests on an ongoing basis with a goal of improving competitiveness of its operations and maximizing its long-term return on investment. As part of this strategy, TDS reviews attractive opportunities to acquire additional operating markets, telecommunications companies and wireless spectrum. In addition, TDS may seek to divest outright or include in exchanges for other wireless interests those markets and wireless interests that are not strategic to its long-term success. TDS from time to time may be engaged in negotiations relating to the acquisition, divestiture or exchange of companies, strategic properties or wireless spectrum. In general, TDS may not disclose such transactions until there is a definitive agreement.

See Note 3 - Acquisitions, Divestitures and Exchanges in the Notes to the consolidated financial statements for details on 2008 transactions.

### **Variable Interest Entities**

TDS consolidates certain variable interest entities pursuant to FIN 46(R). See Note 4 - Variable Interest Entities in the Notes to the Consolidated Financial Statements for the details of these variable interest entities. TDS may elect to make additional capital contributions and/or advances to these variable interest entities in future periods in order to fund their operations.

### **TDS Special Common and U.S. Cellular Common Share Repurchases**

TDS and U.S. Cellular have and expect to continue to repurchase their Special Common Shares and Common Shares, respectively, subject to repurchase programs. For details of these repurchase programs and repurchases during the three months ended March 31, 2008 and 2007, see Note 13 - TDS Special Common and U.S. Cellular Common Share Repurchases in the Notes to the Consolidated Financial Statements.

### **Contractual and Other Obligations**

The Contractual and Other Obligations disclosed in Management's Discussion and Analysis of Financial Condition and Results of Operations included in TDS' Form 10-K for the year ended December 31, 2007, did not include any liabilities related to unrecognized tax benefits under FASB issued Interpretation 48, *Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109* (FIN 48). TDS is unable to predict the period of settlement of such FIN 48 liabilities. Subject to the foregoing, there has been no material change to Contractual and Other Obligations or FIN 48 liabilities between December 31, 2007 and March 31, 2008, except as follows:

As disclosed in Note 3 - Acquisitions, Divestitures and Exchanges in the Notes to the Consolidated Financial Statements on March 20, 2008, the FCC announced that King Street Wireless was the provisional winning bidder for 152 licenses for an aggregate bid of \$300.5 million, net of its designated entity discount of 25%. As disclosed in Note 4 - Variable Interest Entities in the Notes to the Consolidated Financial Statements, TDS consolidates King Street Wireless and its general partner pursuant to FIN 46(R). King Street Wireless' bid amount, less the initial deposit, was paid to the FCC in April 2008. In January 2008, TDS' subsidiary, U.S. Cellular, made capital contributions and advances to King Street Wireless and its general partner of \$97.0 million, which were used by King Street Wireless to pay the FCC an initial deposit of \$97.0 million to allow it to

participate in Auction 73. Also, during April 2008, U.S. Cellular made additional capital contributions and advances to King Street Wireless and its general partner of \$203.5 million in cash and King Street Wireless then paid this amount to the FCC in April 2008 to fulfill its remaining obligation (\$300.5 million aggregate bid less \$97.0 million deposit) for the licenses for which it was the provisional winning bidder in the auction.

**Off-Balance Sheet Arrangements**

TDS has no transactions, agreements or contractual arrangements with unconsolidated entities involving off-balance sheet arrangements, as defined by SEC rules, that have or are reasonably likely to have a material current or future effect on financial condition, changes in financial condition, results of operations, cash flows from operating activities, liquidity, capital resources or financial flexibility.

Investments in Unconsolidated Entities. TDS has certain variable interests in investments in which TDS holds a minority interest. The investments in unconsolidated entities totaled \$224.3 million as of March 31, 2008 and are accounted for using either the equity or cost method. TDS' maximum accounting loss exposure for these variable interests is limited to the aggregate carrying amount of the investments.

Indemnity Agreements. TDS enters into agreements in the normal course of business that provide for indemnification of counterparties. These include certain asset sales and financings with other parties. The terms of the indemnifications vary by agreement. The events or circumstances that would require TDS to perform under these indemnities are transaction specific; however, these agreements may require TDS to indemnify the counterparty for costs and losses incurred from litigation or claims arising from the underlying transaction. TDS is unable to estimate the maximum potential liability for these types of indemnifications as the amounts are dependent on the outcome of future events, the nature and likelihood of which cannot be determined at this time. Historically, TDS has not made any significant indemnification payments under such agreements.

#### **APPLICATION OF CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

TDS prepares its consolidated financial statements in accordance with accounting principles generally accepted in the United States of America ( U.S. GAAP ). TDS' significant accounting policies are discussed in detail in Note 1 - Summary of Significant Accounting Policies of the Notes to the Consolidated Financial Statements and TDS' Application of Critical Accounting Policies and Estimates is discussed in detail in Management's Discussion and Analysis of Financial Condition and Results of Operations, both included in TDS' Form 10-K for the year ended December 31, 2007. There were no material changes to TDS' significant accounting policies or application of critical accounting policies during the first three months of 2008, except as discussed in Note 5 - Fair Value Measurements in the Notes to the Consolidated Financial Statements included herein, related to the adoption of SFAS No. 157, *Fair Value Measurements*, and SFAS 159.

**PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995**

**SAFE HARBOR CAUTIONARY STATEMENT**

This Form 10-Q ( Form 10-Q ), including exhibits, contains statements that are not based on historical fact and represent forward-looking statements, as this term is defined in the Private Securities Litigation Reform Act of 1995. All statements, other than statements of historical facts, that address activities, events or developments that TDS intends, expects, projects, believes, estimates, plans or anticipates will or may occur in the future are forward-looking statements. The words believes, anticipates, estimates, expects, plans, intends, projects and similar expressions are intended to identify these forward-looking statements, but are not the exclusive means of identifying them. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results, events or developments to be significantly different from any future results, events or developments expressed or implied by such forward-looking statements. Such risks, uncertainties and other factors include those set forth below, as more fully discussed under Risk Factors in TDS Form 10-K for the year ended December 31, 2007. However, such factors are not necessarily all of the important factors that could cause actual results, performance or achievements to differ materially from those expressed in, or implied by, the forward-looking statements contained in this document. Other unknown or unpredictable factors also could have material adverse effects on future results, performance or achievements. TDS undertakes no obligation to update publicly any forward-looking statements whether as a result of new information, future events or otherwise. You should carefully consider the Risk Factors in TDS Form 10-K for the year ended December 31, 2007, the following factors and other information contained in, or incorporated by reference into, this Form 10-Q to understand the material risks relating to TDS business.

- *Intense competition in the markets in which TDS operates could adversely affect TDS revenues or increase its costs to compete.*
- *A failure by TDS service offerings to meet customer expectations could limit TDS ability to attract and retain customers and could have an adverse effect on TDS operations.*
- *TDS system infrastructure may not be capable of supporting changes in technologies and services expected by customers, which could result in lost customers and revenues.*
- *An inability to obtain or maintain roaming arrangements with other carriers on terms that are acceptable to TDS could have an adverse effect on TDS business, financial condition or results of operations. Such agreements cover traditional voice services as well as data services, which are an area of strong growth for TDS and other carriers. TDS rate of adoption of new technologies, such as those enabling high-speed data services, could affect its ability to enter into or maintain roaming agreements with other carriers.*
- *Changes in access to content for data or video services or access to new handsets being developed by vendors, or an inability to manage its supply chain or inventory successfully, could have an adverse effect on TDS business, financial condition or results of operations.*

- *A failure by TDS to acquire adequate radio spectrum could have an adverse effect on TDS business and operations.*
- *To the extent conducted by the FCC, TDS is likely to participate in FCC auctions of additional spectrum in the future and, during certain periods, will be subject to the FCC's anti-collusion rules, which could have an adverse effect on TDS.*
- *An inability to attract and/or retain management, technical, sales and other personnel could have an adverse effect on TDS business, financial condition or results of operations.*
- *TDS assets are concentrated in the U.S. telecommunications industry. As a result, its results of operations may fluctuate based on factors related entirely to conditions in this industry.*
- *Consolidation in the telecommunications industry could adversely affect TDS revenues and increase its costs of doing business.*



- *Changes in general economic and business conditions, both nationally and in the markets in which TDS operates, could have an adverse effect on TDS business, financial condition or results of operations.*
- *Changes in various business factors could have an adverse effect on TDS business, financial condition or results of operations. These business factors may include but are not limited to, demand, pricing, growth, average revenue per unit, penetration, churn, expenses, customer acquisition and retention costs, roaming rates, minutes of use, and mix and costs of products and services.*
- *Advances or changes in telecommunications technology, such as Voice over Internet Protocol, WiMAX or LTE (Long-Term Evolution), could render certain technologies used by TDS obsolete, could reduce TDS revenues or could increase its costs of doing business.*
- *Changes in TDS enterprise value, changes in the supply or demand of the market for wireless licenses or telephone company franchises, adverse developments in the business or the industry in which TDS is involved and/or other factors could require TDS to recognize impairments in the carrying value of TDS license costs, goodwill and/or physical assets.*
- *Costs, integration problems or other factors associated with acquisitions/divestitures of properties or licenses and/or expansion of TDS business could have an adverse effect on TDS business, financial condition or results of operations.*
- *A significant portion of TDS wireless revenues is derived from customers who buy services through independent agents and dealers who market TDS services on a commission basis. If TDS relationships with these agents and dealers are seriously harmed, its wireless revenues could be adversely affected.*
- *TDS investments in technologies which are unproven or for which success has not yet been demonstrated may not produce the benefits that TDS expects.*
- *A failure by TDS to complete significant network construction and system implementation as part of its plans to improve the quality, coverage, capabilities and capacity of its network could have an adverse effect on its operations.*
- *Financial difficulties of TDS key suppliers or vendors, or termination or impairment of TDS relationship*

*with such suppliers or vendors could result in a delay or termination of TDS receipt of equipment, content or services which could adversely affect TDS business and results of operations.*

- *TDS has significant investments in entities that it does not control. Losses in the value of such investments could have an adverse effect on TDS results of operations or financial condition.*
- *War, conflicts, hostilities and/or terrorist attacks or equipment failure, power outages, natural disasters or breaches of network or information technology security could have an adverse effect on TDS business, financial condition or results of operations.*
- *The market prices of TDS Common Shares and Special Common Shares are subject to fluctuations due to a variety of factors such as: general economic conditions; wireless and telecommunications industry conditions; fluctuations in TDS quarterly customer activations, churn rate, revenues, results of operations or cash flows; variations between TDS actual financial and operating results and those expected by analysts and investors; and announcements by TDS competitors.*
- *Changes in guidance or interpretations of accounting requirements, changes in industry practice, identification of errors or changes in management assumptions could require amendments to or restatements of financial information or disclosures included in this or prior filings with the SEC.*

- *Restatements of financial statements by TDS and related matters, including resulting delays in filing periodic reports with the SEC, could have an adverse effect on TDS' credit rating, liquidity, financing arrangements, capital resources and ability to access the capital markets, including pursuant to shelf registration statements; could adversely affect TDS' listing arrangements on the American Stock Exchange and/or New York Stock Exchange; and/or could have other negative consequences, any of which could have an adverse effect on the trading prices of TDS' publicly traded equity and/or debt and/or on TDS' business, financial condition or results of operations.*
- *The pending SEC investigation regarding the restatement of TDS' financial statements could result in substantial expenses, and could result in monetary or other penalties.*
- *Changes in facts or circumstances, including new or additional information that affects the calculation of potential liabilities for contingent obligations under guarantees, indemnities or otherwise, could require TDS to record charges in excess of amounts accrued in the financial statements, if any, which could have an adverse effect on TDS' financial condition or results of operations.*
- *A failure to successfully remediate the existing material weakness in internal control over financial reporting in a timely manner or the identification of additional material weaknesses in the effectiveness of internal control over financial reporting could result in inaccurate financial statements or other disclosures or fail to prevent fraud, which could have an adverse effect on TDS' business, financial condition or results of operations.*
- *Early redemptions of debt or repurchases of debt, issuances of debt, changes in prepaid forward contracts, changes in operating leases, changes in purchase obligations or other factors or developments could cause the amounts reported under Contractual Obligations in TDS' Management's Discussion and Analysis of Financial Condition and Results of Operations to be different from the amounts actually incurred.*
- *An increase of TDS' debt in the future could subject TDS to various restrictions and higher interest costs and decrease its cash flows and earnings.*
- *Uncertainty of access to capital for telecommunications companies, deterioration in the capital markets, other changes in market conditions, changes in TDS' credit ratings or other factors could limit or restrict the availability of financing on terms and prices acceptable to TDS, which could require TDS to reduce its construction, development and acquisition programs.*
- *Changes in the regulatory environment or a failure by TDS to timely or fully comply with any regulatory requirements could adversely affect TDS' financial condition, results of operations or ability to do business.*

- *Changes in income tax rates, laws, regulations or rulings, or federal or state tax assessments could have an adverse effect on TDS financial condition or results of operations.*
- *Settlements, judgments, restraints on its current or future manner of doing business and/or legal costs resulting from pending and future litigation could have an adverse effect on TDS financial condition, results of operations or ability to do business.*
- *The possible development of adverse precedent in litigation or conclusions in professional studies to the effect that radio frequency emissions from handsets, wireless data devices and/or cell sites cause harmful health consequences, including cancer or tumors, or may interfere with various electronic medical devices such as pacemakers, could have an adverse effect on TDS wireless business, financial condition or results of operations.*
- *Certain matters, such as control by the TDS Voting Trust and provisions in the TDS Restated Certificate of Incorporation, may serve to discourage or make more difficult a change in control of TDS.*

- *Any of the foregoing events or other events could cause revenues, customer additions, operating income, capital expenditures and/or any other financial or statistical information to vary from TDS' forward-looking estimates by a material amount.*

You are referred to a further discussion of these risks as set forth under "Risk Factors" in TDS' Annual Report on Form 10-K for the year ended December 31, 2007. TDS undertakes no obligation to update publicly any forward-looking statements whether as a result of new information, future events or otherwise. Readers should evaluate any statements in light of these important factors.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

**MARKET RISK**

**Long-term Debt**

TDS is subject to risks due to fluctuations in interest rates. As of March 31, 2008, the majority of TDS debt, excluding current debt related to the forward contracts, is in the form of long-term, fixed-rate notes with original maturities ranging up to 40 years. Accordingly, fluctuations in interest rates can lead to significant fluctuations in the fair value of such instruments. The current debt related to the forward contracts consists of both variable-rate debt and fixed-rate zero-coupon debt. The variable-rate forward contracts require quarterly interest payments that are dependent on market interest rates. Increases in interest rates will result in increased interest expense. As of March 31, 2008, TDS had not entered into any significant financial derivatives to reduce its exposure to interest rate risks.

Refer to the disclosure under Market Risk – Long-Term Debt in TDS Form 10-K for the year ended December 31, 2007, for additional information regarding required principal payments and the weighted average interest rates related to TDS long-term debt.

**Marketable Equity Securities and Derivatives**

TDS holds marketable equity securities, which were obtained in connection with the sale of non-strategic investments. The market value of these investments aggregated \$969.3 million at March 31, 2008 and \$1,917.9 million at December 31, 2007.

TDS and its subsidiaries own 719,396 shares of Rural Cellular Corporation (RCCC). On July 30, 2007, RCCC announced that Verizon Wireless agreed to purchase the outstanding shares of RCCC for \$45 per share in cash. The acquisition is expected to close in 2008 and, therefore, the investment is classified as a Current Asset in TDS Consolidated Balance Sheet as of March 31, 2008. If the transaction closes, TDS will receive approximately \$32.4 million in cash, recognize a \$31.7 million pre-tax gain and cease to own any interest in RCCC.

TDS also holds 55,969,689 shares of Deutsche Telekom Ordinary Shares at March 31, 2008. Further, TDS has variable prepaid forward contracts (forward contracts) with counterparties in connection with these Deutsche Telekom shares. The principal amount of the forward contracts was accounted for as a loan. The forward contracts contain embedded collars that are bifurcated and receive separate accounting treatment in accordance with SFAS 133. See Note 10 - Marketable Equity Securities and Variable Prepaid Forward Contracts in the Notes to the Consolidated Financial Statements for further details on the marketable equity securities and forward contracts.

In April and May 2008, TDS settled or agreed to settle forward contracts related to 46,969,689 Deutsche Telekom ordinary shares. The forward contracts related to the 46,969,689 Deutsche Telekom shares were or will be settled prior to their scheduled maturity dates in May 2008 through September 2008. See Note 17 – Subsequent Events, in the Notes to the Consolidated Financial Statements for details on the early settlement of such forward contracts.



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The following table summarizes certain details related to the contracted securities as of March 31, 2008.

Security	Shares	Collar(1)		Loan Amount (000s)(2)
		Downside Limit (Floor)	Upside Potential (Ceiling)	
Deutsche Telekom	55,969,689	\$11.59 - \$12.41	\$13.25 - \$14.99	\$ 674,402
Unaccrued Discount				(5,176)
				\$ 669,226

(1) The per share amounts represent the range of floor and ceiling prices of all securities monetized.

(2) Total amount is included in current liabilities in the caption Forward Contracts .

The following analysis presents the hypothetical change in the fair value of marketable equity securities and derivative instruments at March 31, 2008, using the Black-Scholes model, assuming hypothetical price fluctuations of plus and minus 10%, 20% and 30%.

(Dollars in millions)	Valuation of investments assuming indicated decrease			March 31, 2008 Fair Value	Valuation of investments assuming indicated increase		
	-30%	-20%	-10%		10%	20%	30%
Marketable Equity Securities	\$ 678.5	\$ 775.4	\$ 872.4	\$ 969.3	\$ 1,066.2	\$ 1,163.2	\$ 1,260.1
Derivative Instruments(1)	\$ 58.4	\$ (7.5)	\$ (77.8)	(156.1)	(240.0)	(328.1)	(418.7)

(1) Represents the fair value of the derivative instruments assuming the indicated increase or decrease in the underlying securities.



**Item 4. Controls and Procedures**

Evaluation of Disclosure Controls and Procedures

TDS maintains disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act )) that are designed to ensure that information required to be disclosed in its reports filed or submitted under the Exchange Act is processed, recorded, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to TDS' management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow for timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives.

As required by SEC Rule 13a-15(b), TDS carried out an evaluation, under the supervision and with the participation of management, including its Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of TDS' disclosure controls and procedures as of the end of the period covered by this Quarterly Report. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that TDS' disclosure controls and procedures were not effective as of March 31, 2008 because of the material weakness in accounting for income taxes described below. Notwithstanding the material weakness that existed as of March 31, 2008, management has concluded that the consolidated financial statements included in this Quarterly Report on Form 10-Q present fairly, in all material respects, the financial position, results of operations and cash flows of TDS and its subsidiaries in conformity with accounting principles generally accepted in the United States of America ( U.S. GAAP ).

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. Management identified the following material weakness in internal control over financial reporting as of December 31, 2007, which continued to exist at March 31, 2008:

TDS did not maintain effective controls over the completeness, accuracy, presentation and disclosure of its accounting for income taxes. Specifically, TDS did not have effective controls designed and in place to monitor the difference between the income tax basis and the financial reporting basis of assets and liabilities and reconcile the resulting basis difference to its deferred income tax asset and liability balances. This control deficiency affected deferred income tax asset and liability accounts and income taxes payable. This control deficiency resulted in the restatement of TDS' annual consolidated financial statements for 2005, 2004, 2003 and 2002, the interim consolidated financial statements for all quarters in 2005, 2004 and 2003, the interim consolidated financial statements for the first and second quarters of 2006, as well as adjustments, including audit adjustments, to the 2006 third quarter interim consolidated financial statements and the 2006 and 2007 annual consolidated financial statements. Additionally, this control deficiency could result in a misstatement of the aforementioned accounts that would result in a material misstatement to TDS' interim or annual consolidated financial statements that would not be prevented or detected. Accordingly, our management has determined that this control deficiency constitutes a material weakness.

Remediation of Material Weakness in Internal Control Over Financial Reporting

Management has been and is currently addressing this material weakness in internal control over financial reporting and is committed to remediating it as expeditiously as possible.

During 2007 TDS implemented tax provisioning software which enhanced internal controls related to accounting for income taxes on a TDS enterprise-wide basis, including U.S. Cellular. Further, during 2007, TDS took the following steps:

- With the assistance of external tax advisors, enhanced controls and policies with respect to monitoring the difference between the income tax basis and financial reporting basis of assets and liabilities and reconciling the difference to the deferred income tax asset and liability balances. The scope of this project encompassed controls over income taxes on a TDS enterprise-wide basis, including U.S. Cellular.

- Provided extensive training to associates to strengthen their technical expertise in U.S. GAAP, including accounting for income taxes.
- Reorganized the tax department to have a separate group responsible solely for income tax accounting which reports directly to the Senior Vice President and Corporate Controller.

TDS is in the process of implementing additional controls to address the remaining income tax accounting control deficiencies which together constitute a material weakness at December 31, 2007 and March 31, 2008.

Changes in Internal Control Over Financial Reporting

There were no changes in TDS internal control over financial reporting during the quarter ended March 31, 2008, that have materially affected, or are reasonably likely to materially affect TDS internal control over financial reporting.

**Part II. Other Information**

**Item 1. Legal Proceedings.**

TDS is involved or may be involved from time to time in legal proceedings before the FCC, other regulatory authorities, and/or various state and federal courts. If TDS believes that a loss arising from such legal proceedings is probable and can be reasonably estimated, an amount is accrued in the financial statements for the estimated loss. If only a range of loss can be determined, the best estimate within that range is accrued; if none of the estimates within that range is better than another, the low end of the range is accrued. The assessment of the expected outcomes of legal proceedings is a highly subjective process that requires judgments about future events. The legal proceedings are reviewed at least quarterly to determine the adequacy of accruals and related financial statement disclosures. The ultimate outcomes of legal proceedings could differ materially from amounts accrued in the financial statements.

**Item 1A. Risk Factors.**

In addition to the information set forth in this Form 10-Q, you should carefully consider the factors discussed in Part I, Item 1A. Risk Factors in TDS Annual Report on Form 10-K for the year ended December 31, 2007, which could materially affect TDS business, financial condition or future results. The risks described in this Form 10-Q and in TDS Annual Report on Form 10-K may not be the only risks facing TDS. Additional unidentified or unrecognized risks and uncertainties may materially adversely affect TDS business, financial condition and/or operating results. Subject to the foregoing, TDS has not identified for disclosure any material changes to the risk factors as previously disclosed in TDS Annual Report on Form 10-K for the year ended December 31, 2007.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.**

The table required by this item is not included with respect to TDS Common Shares because TDS does not have a share repurchase authorization with respect to its Common Shares and there have been no purchases made by or on behalf of TDS, or any open market purchases made by any affiliated purchaser (as defined by the SEC) of any TDS Common Shares during the quarter ended March 31, 2008.

On March 2, 2007, the TDS Board of Directors authorized the repurchase of up to \$250 million in aggregate purchase price of TDS Special Common Shares from time to time pursuant to open market purchases and/or block purchases in compliance with Rule 10b-18 of the Securities Exchange Act of 1934, as amended (Exchange Act), pursuant to Rule 10b5-1 under the Exchange Act, or pursuant to accelerated share repurchase arrangements, prepaid share repurchases, private transactions or as otherwise authorized. This authorization will expire on March 2, 2010.

The following table provides certain information with respect to all purchases made by or on behalf of TDS, and any open market purchases made by any affiliated purchaser (as defined by the SEC) of TDS, of TDS Special Common Shares during the quarter covered by this Form 10-Q.

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TDS PURCHASES OF SPECIAL COMMON SHARES

Period			(a)	(b)	(c)	(d)
			Total Number of Special Common Shares Purchased	Average Price Paid per Special Common Share	Total Number of Special Common Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Dollar Value of Special Common Shares that may yet be Purchased Under the Plans or Programs
January 1	31, 2008		220,016	\$ 53.37	220,016	\$ 111,590,144
February 1	29, 2008		264,000	46.04	264,000	99,436,708
March 1	31, 2008		557,000	37.98	557,000	78,279,348
Total for or as of end of the quarter ended March 31, 2008			1,041,016	\$ 43.28	1,041,016	\$ 78,279,348

The following is additional information with respect to the Special Common Shares authorization:

- i. The date the program was announced was March 5, 2007 by Form 8-K.
- ii. The amount originally approved was up to \$250 million in aggregate purchase price of TDS Special Common Shares.
- iii. The original expiration date for the program is March 2, 2010.
- iv. The Special Common Shares authorization did not expire during the first quarter of 2008.
- v. TDS has not determined to terminate the foregoing Special Common Shares repurchase program prior to expiration, or to cease making further purchases thereunder, during the first quarter of 2008.

**Item 5. Other Information.**

1. The following information is being provided to update prior disclosures made pursuant to the requirements of Form 8-K, Item 2.03 - Creation of a Direct Financial Obligation or an Obligation Under an Off-Balance Sheet Arrangement of a Registrant.

On April 15, 2008, U.S. Cellular borrowed \$100 million under its revolving credit facility. U.S. Cellular anticipates repaying the amount borrowed from future cash flows from operations and/or long-term debt financing.

The foregoing description is qualified by reference to the description of the Revolving Credit Facility under Item 1.01 in U.S. Cellular's Current Report on Form 8-K dated December 9, 2004, and a copy of the Revolving Credit Facility, which is included as Exhibit 4.1 of U.S. Cellular's Current Report on such Form 8-K dated December 9, 2004 and is incorporated by reference herein.

2. On March 13, 2008, the Stock Option Compensation Committee of the Board of Directors of U.S. Cellular amended the forms of the following award agreements under the U.S. Cellular 2005 Long-Term Incentive Plan.

- Form of Stock Option Award Agreement to be used for grants of stock options to John E. Rooney.

- Form of Restricted Stock Unit Award Agreement to be used for grants of restricted stock units to John E. Rooney.

The foregoing description is qualified by reference to the forms of award agreements which are attached as Exhibits to U.S. Cellular's Current Report on Form 8-K dated March 13, 2008.

3. The following information is being provided to update prior disclosures made with respect to Form 8-K, Item 5.02(e) - Departure of Directors or Certain Officers; Election of Directors; Appointment of Certain Officers; Compensatory Arrangements of Certain Officers.

Beginning with the 2007 performance year relating to bonuses that were paid in 2008, TDS has established performance guidelines and procedures for awarding bonuses. These guidelines and procedures were filed by TDS as Exhibit 10.1 to TDS Form 10-Q for the quarter ended March 31, 2007. Starting with the 2007 performance year relating to bonuses that will be paid in 2008, 70% of each officer's target bonus will be based on his/her assessed performance. The remaining 30% will be based on performance of TDS, based on the weighted average of the percentage achievement of target of U.S. Cellular and TDS Telecom. However, the foregoing are only guidelines and notwithstanding anything to the contrary, 100% of the bonus continues to be discretionary and is not earned by the officer unless and until awarded and paid. For disclosure purposes, the amount of bonus paid in the first quarter of 2008 with respect to 2007 performance to the named executive officers was as follows:

	<b>LeRoy T. Carlson, Jr.</b>	<b>Kenneth R. Meyers</b>	<b>John E. Rooney</b>	<b>Scott H. Williamson</b>	<b>LeRoy T. Carlson</b>
Bonus for 2007 Paid in 2008	\$ 950,000	\$ 356,000	\$ 675,000	\$ 277,000	\$ 202,600

These amounts and the calculation thereof will be reported in the Compensation Discussion and Analysis to be included in TDS 2009 proxy statement.

4. The following information is being provided to update disclosures pursuant to Form 8-K, Item 1.02 - Termination of Material Definitive Agreement.

(a) In April 2008, the Guarantee by TDS dated November 6, 2002, and the Guarantee by TDS dated November 12, 2002, were terminated early due to the early termination by TDS of the related variable prepaid forward contracts relating to the monetization of Deutsche Telekom ordinary shares. Both Guarantees were in favor of JPMorgan Chase Bank ( Counterparty ). TDS and its affiliates do not have any material relationship with the Counterparty except with respect to variable prepaid forward contracts and the TDS and U.S. Cellular revolving credit agreements.

(b) The description of the material terms and conditions of the variable prepaid forward contracts are incorporated herein by reference from Note 10 - Marketable Equity Securities and Variable Prepaid Forward Contracts

(c) The material circumstances surrounding the terminations are incorporated herein by reference from Note 17 - Subsequent Events.

(d) TDS did not incur any material early termination penalties.

**Item 6. Exhibits**

Exhibit 10.1 Form of U.S. Cellular 2005 Long-Term Incentive Plan Stock Option Award Agreement to be used for grants to John E. Rooney, is hereby incorporated by reference to U.S. Cellular's Current Report on Form 8-K dated March 13, 2008.

Exhibit 10.2 Form of U.S. Cellular 2005 Long-Term Incentive Plan Restricted Stock Unit Award Agreement to be used for grants to John E. Rooney, is hereby incorporated by reference to U.S. Cellular's Current Report on Form 8-K dated March 13, 2008.

Exhibit 11 Computation of Earnings per share is included herein as Note 7 to the Notes of the Consolidated Financial Statements.

Exhibit 12 Statement regarding computation of ratios of earnings to fixed charges.

Exhibit 31.1 Chief Executive Officer certification pursuant to Rule 13a-14 of the Securities Exchange Act of 1934.

Exhibit 31.2 Chief Financial Officer certification pursuant to Rule 13a-14 of the Securities Exchange Act of 1934.



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Exhibit 32.1 Chief Executive Officer certification pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code.

Exhibit 32.2 Chief Financial Officer certification pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code.

The foregoing exhibits include only the exhibits that relate specifically to this Form 10-Q or that supplement the exhibits identified in TDS Form 10-K for the year ended December 31, 2007. Reference is made to TDS Form 10-K for the year ended December 31, 2007 for a complete list of exhibits, which are incorporated herein except to the extent supplemented or superseded above.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

TELEPHONE AND DATA SYSTEMS, INC.

(Registrant)

Date: May 7, 2008

/s/ LeRoy T. Carlson, Jr.  
LeRoy T. Carlson, Jr.,  
President and Chief Executive Officer  
(Principal Executive Officer)

Date: May 7, 2008

/s/ Kenneth R. Meyers  
Kenneth R. Meyers,  
Executive Vice President and  
Chief Financial Officer  
(Principal Financial Officer)

Date: May 7, 2008

/s/ Douglas D. Shuma  
Douglas D. Shuma,  
Senior Vice President and  
Corporate Controller  
(Principal Accounting Officer)

Signature page for the TDS 2008 First Quarter Form 10-Q

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## TELEPHONE AND DATA SYSTEMS, INC.

## RATIO OF EARNINGS TO FIXED CHARGES

	Three Months Ended March 31,	
	2008	2007
(Dollars in Thousands)		
<b>EARNINGS:</b>		
Income before income taxes and minority interest	\$ 139,756	\$ 378,534
Add (deduct):		
Equity in earnings of unconsolidated entities	(21,470)	(23,696)
Distributions from unconsolidated entities	7,047	2,321
Minority interests in pre-tax income of subsidiaries that do not have fixed charges	(5,160)	(4,465)
	120,173	352,694
<b>Add fixed charges:</b>		
Consolidated interest expense (1)	41,380	57,801
Interest portion (1/3) of consolidated rent expense	12,080	11,321
	\$ 173,633	\$ 421,816
<b>FIXED CHARGES:</b>		
Consolidated interest expense(1)	\$ 41,380	\$ 57,801
Capitalized interest	293	162
Interest portion (1/3) of consolidated rent expense	12,080	11,321
	\$ 53,753	\$ 69,284
<b>RATIO OF EARNINGS TO FIXED CHARGES</b>	<b>3.23</b>	<b>6.09</b>
Tax-effected preferred dividends	\$ 22	\$ 21
Fixed charges	53,753	69,284
Fixed charges and preferred dividends	\$ 53,775	\$ 69,305
<b>RATIO OF EARNINGS TO FIXED CHARGES AND PREFERRED DIVIDENDS</b>	<b>3.23</b>	<b>6.09</b>

(1) Interest expense on income tax contingencies is not included in fixed charges.

Certification of Chief Executive Officer

I, LeRoy T. Carlson, Jr., certify that:

1. I have reviewed this quarterly report on Form 10-Q of Telephone and Data Systems, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

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- a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
- b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 7, 2008

/s/ LeRoy T. Carlson, Jr.  
LeRoy T. Carlson, Jr.  
President and Chief Executive Officer

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Certification of Chief Financial Officer

I, Kenneth R. Meyers, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Telephone and Data Systems, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

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- a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
- b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 7, 2008

/s/ Kenneth R. Meyers  
Kenneth R. Meyers  
Executive Vice President and  
Chief Financial Officer

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**Certification Pursuant to Section 1350 of Chapter 63  
of Title 18 of the United States Code**

I, LeRoy T. Carlson, Jr., the chief executive officer of Telephone and Data Systems, Inc., certify that (i) the quarterly report on Form 10-Q for the first quarter of 2008 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and (ii) the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of Telephone and Data Systems, Inc.

/s/ LeRoy T. Carlson, Jr.  
LeRoy T. Carlson, Jr.  
May 7, 2008

A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act of 2002 has been provided to Telephone and Data Systems, Inc. and will be retained by Telephone and Data Systems, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

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**Certification Pursuant to Section 1350 of Chapter 63  
of Title 18 of the United States Code**

I, Kenneth R. Meyers, the chief financial officer of Telephone and Data Systems, Inc., certify that (i) the quarterly report on Form 10-Q for the first quarter of 2008 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and (ii) the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of Telephone and Data Systems, Inc.

*/s/* Kenneth R. Meyers  
Kenneth R. Meyers  
May 7, 2008

A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act of 2002 has been provided to Telephone and Data Systems, Inc. and will be retained by Telephone and Data Systems, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

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