

NRG ENERGY, INC.
Form 10-Q
May 01, 2008

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q**

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended: March 31, 2008

Commission File Number: 001-15891

NRG Energy, Inc.

(Exact name of Registrant as specified in its charter)

Delaware

(State or other jurisdiction
of incorporation or organization)

41-1724239

(I.R.S. Employer
Identification No.)

**211 Carnegie Center
Princeton, New Jersey**

(Address of principal executive offices)

08540

(Zip Code)

(609) 524-4500

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

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 12 b-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)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 12, 13 or 15 (d) of the Securities and Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

Yes No

As of April 25, 2008, there were 235,921,977 shares of common stock outstanding, par value \$0.01 per share.

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CAUTIONARY STATEMENT REGARDING FORWARD LOOKING INFORMATION

This Quarterly Report on Form 10-Q includes forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act. The words believes, projects, anticipates, plans, expects, intends, estimates and similar expressions are intended to identify forward-looking statements. These forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause NRG's actual results, performance and achievements, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. These factors, risks and uncertainties include the factors described under Risks Related to NRG in Part I, Item 1A, of the Company's Annual Report on Form 10-K, for the year ended December 31, 2007, and the following:

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

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 NRG may not have adequate insurance to cover losses as a result of such hazards;

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

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

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

NRG's potential inability 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 ISOs, or regional transmission organizations, or RTOs, that result in a failure to adequately compensate NRG's generation units for all of its costs;

NRG's ability to borrow additional funds and access capital markets, as well as NRG's substantial indebtedness and the possibility that NRG may incur additional indebtedness going forward;

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

NRG's ability to implement its *Repowering* NRG strategy of developing and building new power generation facilities, including new nuclear units, Integrated Gasification Combined Cycle, or IGCC, units and wind projects;

NRG's ability to implement its strategy of finding ways to meet the challenges of climate change, clean air and protecting our natural resources while taking advantage of business opportunities; and

NRG's ability to achieve its strategy of regularly returning capital to shareholders.

Forward-looking statements speak only as of the date they were made, and NRG undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. The foregoing review of factors that could cause NRG's actual results to differ materially from those contemplated in any forward-looking statements included in this Quarterly Report on Form 10-Q should not be construed as exhaustive.

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GLOSSARY OF TERMS

When the following terms and abbreviations appear in the text of this report, they have the meanings indicated below:

| | |
|----------------------------|---|
| Acquisition | February 2, 2006 acquisition of Texas Genco LLC, now referred to as the Company's Texas region |
| ARO | Asset Retirement Obligation |
| BACT | Best Available Control Technology |
| Baseload capacity | Electric power generation capacity normally expected to serve loads on an around-the-clock basis throughout the calendar year |
| BTU | British Thermal Unit |
| CAA | Clean Air Act |
| CAIR | Clean Air Interstate Rule |
| CAMR | Clean Air Mercury Rule |
| Capital Allocation Program | Share repurchase program announced in August 2006 |
| CDWR | California Department of Water Resources |
| CL&P | Connecticut Light & Power |
| CO ₂ | Carbon dioxide |
| COLA | Combined Operating License Application |
| CSF I | NRG Common Stock Finance I LLC |
| CSF II | NRG Common Stock Finance II LLC |
| DPUC | Connecticut Department of Public Utility Control |
| EFOR | Equivalent Forced Outage Rates – considers the equivalent impact that forced de-ratings have in addition to full forced outages |
| EPC | Engineering, Procurement and Construction |
| ERCOT | Electric Reliability Council of Texas, the Independent System Operator and the regional reliability coordinator of the various electricity systems within Texas |
| FASB | Financial Accounting Standards Board, the designated organization for establishing standards for financial accounting and reporting |
| FCM | Forward Capacity Market |
| FERC | Federal Energy Regulatory Commission |
| FIN | FASB Interpretation |
| FIN46R | FASB Interpretation No. 46(R), <i>Consolidation of Variable Interest Entities</i> |
| FSP | FASB Staff Position |
| GHG | Greenhouse Gases |
| Hedge Reset | Net settlement of long-term power contracts and gas swaps by negotiating prices to current market completed in November 2006 |
| IGCC | Integrated Gasification Combined Cycle |
| ISO | Independent System Operator, also referred to as Regional Transmission Organization, or RTO |
| ISO-NE | ISO New England, Inc. |
| ITISA | Itiquira Energetica S.A. |
| kW | Kilowatts |
| kWh | Kilowatt-hours |
| Letter of Credit Facility | NRG's \$1.3 billion senior secured synthetic letter of credit facility which matures on February 1, 2013 |
| LFRM | Locational Forward Reserve Market |
| LIBOR | London Inter-Bank Offer Rate |
| LMP | Locational Marginal Prices |

| | |
|------------------------|--|
| LTIP | Long Term Incentive Plan |
| MACT | Maximum Achievable Control Technology |
| Merit Order | A term used for the ranking of power stations in terms of increasing order of fuel costs |
| MMBtu | Million British Thermal Units |
| MW | Megawatts |
| MWh | Saleable megawatt hours net of internal/parasitic load megawatt-hours |
| NAAQS | National Ambient Air Quality Standard |
| NEPOOL | New England Power Pool |
| New York Rest of State | New York State excluding New York City |
| NiMo | Niagara Mohawk Power Corporation |
| NINA | Nuclear Innovation North America LLC |
| NO _x | Nitrogen oxide |
| NOL | Net Operating Loss |
| NOV | Notice of Violation |

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GLOSSARY OF TERMS (cont d)

| | |
|---------------------------|--|
| NPNS | Normal Purchase Normal Sale |
| NRC | Nuclear Regulatory Commission |
| NSR | New Source Review |
| NYISO | New York Independent System Operator |
| NYPA | New York Power Authority |
| OCI | Other Comprehensive Income |
| Phase II 316(b) Rule | A section of the Clean Water Act regulating cooling water intake structures |
| PJM | PJM Interconnection LLC |
| PJM Market | The wholesale and retail electric market operated by PJM primarily in all or parts of Delaware, the District of Columbia, Illinois, Maryland, New Jersey, Ohio, Pennsylvania, Virginia and West Virginia |
| PMI | NRG Power Marketing LLC, a wholly-owned subsidiary of NRG which procures transportation and fuel for the Company's generation facilities, sells the power from these facilities, and manages all commodity trading and hedging for NRG |
| PPA | Power Purchase Agreement |
| PPM | Parts per Million |
| PSD | Prevention of Significant Deterioration |
| Repowering | Technologies utilized to replace, rebuild, or redevelop major portions of an existing electrical generating facility, not only to achieve a substantial emissions reduction, but also to increase facility capacity, and improve system efficiency |
| <i>Repowering</i> NRG | NRG's program designed to develop, finance, construct and operate new, highly efficient, environmentally responsible capacity over the next decade |
| Revolving Credit Facility | NRG's \$1 billion senior secured credit facility which matures on February 2, 2011 |
| RGGI | Regional Greenhouse Gas Initiative |
| RMR | Reliability Must-Run |
| RPM | Reliability Pricing Model term for capacity market in PJM market |
| RTO | Regional Transmission Organization, also referred to as an Independent System Operator, or ISO |
| Sarbanes-Oxley | Sarbanes-Oxley Act of 2002 |
| SEC | United States Securities and Exchange Commission |
| Senior Credit Facility | NRG's senior secured facility, which is comprised of a Term B loan facility which matures on February 1, 2013, a \$1.3 billion Letter of Credit Facility, and a \$1 billion Revolving Credit Facility, which matures on February 2, 2011 |
| SFAS | Statement of Financial Accounting Standards issued by the FASB |
| SFAS 71 | SFAS No. 71, <i>Accounting for the Effects of Certain Types of Regulation</i> |
| SFAS 109 | SFAS No. 109, <i>Accounting for Income Taxes</i> |
| SFAS 133 | SFAS No. 133, <i>Accounting for Derivative Instruments and Hedging Activities</i> |
| SFAS 141R | SFAS No. 141 (revised 2007), <i>Business Combinations</i> |
| SFAS 157 | SFAS No. 157, <i>Fair Value Measurements</i> |
| SFAS 160 | SFAS No. 160, <i>Noncontrolling Interest in Consolidated Financial Statements</i> |
| SFAS 161 | SFAS No. 161, <i>Disclosure about Derivative Instruments and Hedging Activities - an amendment of FASB Statement No. 133</i> |
| SO ₂ | Sulfur dioxide |

| | |
|-------------|---|
| SOP | Statement of Position issued by the American Institute of Certified Public Accountants |
| STP | South Texas Project Nuclear generating facility located near Bay City, Texas in which NRG owns a 44% interest |
| STPNOC | South Texas Project Nuclear Operating Company |
| Texas Genco | Texas Genco LLC, now referred to as the Company's Texas region |
| Tosli | Tosli Acquisition B.V. |
| US | United States of America |
| USEPA | United States Environmental Protection Agency |
| U.S. GAAP | Accounting principles generally accepted in the United States |
| VAR | Value at Risk |
| VIE | Variable Interest Entity |
| WCP | West Coast Power (Generation) Holdings, LLC |

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PART I FINANCIAL INFORMATION
ITEM 1 CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AND NOTES
NRG ENERGY, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

| (In millions except per share amounts) | Three months ended March 31, | |
|---|---|----------------|
| | 2008 | 2007 |
| Operating Revenues | | |
| Total operating revenues | \$ 1,302 | \$ 1,299 |
| Operating Costs and Expenses | | |
| Cost of operations | 804 | 781 |
| Depreciation and amortization | 161 | 160 |
| General and administrative | 75 | 85 |
| Development costs | 12 | 23 |
| Total operating costs and expenses | 1,052 | 1,049 |
| Gain on sale of assets | | 17 |
| Operating Income | 250 | 267 |
| Other Income/(Expense) | | |
| Equity in (losses)/earnings of unconsolidated affiliates | (4) | 13 |
| Other income, net | 9 | 15 |
| Interest expense | (153) | (179) |
| Total other expense | (148) | (151) |
| Income From Continuing Operations Before Income Taxes | 102 | 116 |
| Income tax expense | 54 | 55 |
| Income From Continuing Operations | 48 | 61 |
| Income from discontinued operations, net of income taxes | 4 | 4 |
| Net Income | \$ 52 | \$ 65 |
| Preferred stock dividends | 14 | 14 |
| Income Available for Common Stockholders | \$ 38 | \$ 51 |
| Weighted average number of common shares outstanding basic | 236 | 244 |
| Income from continuing operations per weighted average common share basic | \$ 0.14 | \$ 0.19 |
| Income from discontinued operations per weighted average common share basic | 0.02 | 0.02 |
| Net Income per Weighted Average Common Share Basic | \$ 0.16 | \$ 0.21 |

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| | | | |
|---|----------------|----------------|----------------|
| Weighted average number of common shares outstanding | diluted | 245 | 271 |
| Income from continuing operations per weighted average common share | diluted | \$ 0.14 | \$ 0.19 |
| Income from discontinued operations per weighted average common share | diluted | 0.02 | 0.01 |
| Net Income per Weighted Average Common Share | Diluted | \$ 0.16 | \$ 0.20 |

See notes to condensed consolidated financial statements.

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NRG ENERGY, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

| (in millions, except shares and par value) | March 31, 2008 (unaudited) | December 31, 2007 |
|--|----------------------------------|----------------------|
| ASSETS | | |
| Current Assets | | |
| Cash and cash equivalents | \$ 834 | \$ 1,132 |
| Restricted cash | 39 | 29 |
| Accounts receivable, less allowance for doubtful accounts of \$1 and \$1 | 456 | 482 |
| Inventory | 454 | 451 |
| Derivative instruments valuation | 2,389 | 1,034 |
| Deferred income taxes | 325 | 124 |
| Prepayments and other current assets | 408 | 259 |
| Current assets discontinued operations | 59 | 51 |
| Total current assets | 4,964 | 3,562 |
| Property, plant and equipment, net of accumulated depreciation of \$1,848 and \$1,695 | 11,279 | 11,320 |
| Other Assets | | |
| Equity investments in affiliates | 451 | 425 |
| Notes receivable and capital lease, less current portion | 529 | 491 |
| Goodwill | 1,786 | 1,786 |
| Intangible assets, net of accumulated amortization of \$392 and \$372 | 852 | 873 |
| Nuclear decommissioning trust fund | 365 | 384 |
| Derivative instruments valuation | 480 | 150 |
| Other non-current assets | 171 | 176 |
| Intangible assets held-for-sale | 3 | 14 |
| Non-current assets discontinued operations | 94 | 93 |
| Total other assets | 4,731 | 4,392 |
| Total Assets | \$ 20,974 | \$ 19,274 |
| LIABILITIES AND STOCKHOLDERS EQUITY | | |
| Current Liabilities | | |
| Current portion of long-term debt and capital leases | \$ 130 | \$ 466 |
| Accounts payable | 349 | 384 |
| Derivative instruments valuation | 2,644 | 917 |
| Accrued expenses and other current liabilities | 293 | 473 |
| Current liabilities discontinued operations | 37 | 37 |
| Total current liabilities | 3,453 | 2,277 |
| Other Liabilities | | |

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| | | |
|--|------------------|------------------|
| Long-term debt and capital leases | 8,101 | 7,895 |
| Nuclear decommissioning reserve | 311 | 307 |
| Nuclear decommissioning trust liability | 300 | 326 |
| Deferred income taxes | 884 | 843 |
| Derivative instruments valuation | 1,332 | 759 |
| Out-of-market contracts | 550 | 628 |
| Other non-current liabilities | 485 | 412 |
| Non-current liabilities – discontinued operations | 79 | 76 |
| Total non-current liabilities | 12,042 | 11,246 |
| Total Liabilities | 15,495 | 13,523 |
| 3.625% convertible perpetual preferred stock (at liquidation value, net of issuance costs) | 247 | 247 |
| Commitments and Contingencies Stockholders Equity | | |
| Preferred stock (at liquidation value, net of issuance costs) | 892 | 892 |
| Common Stock | 3 | 3 |
| Additional paid-in capital | 4,095 | 4,092 |
| Retained earnings | 1,308 | 1,270 |
| Less treasury stock, at cost 25,832,200 and 24,550,600 shares | (693) | (638) |
| Accumulated other comprehensive loss | (373) | (115) |
| Total Stockholders Equity | 5,232 | 5,504 |
| Total Liabilities and Stockholders Equity | \$ 20,974 | \$ 19,274 |

See notes to condensed consolidated financial statements.

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NRG ENERGY, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

(In millions)

| Three months ended March 31, | 2008 | 2007 |
|--|--------------|--------------|
| Cash Flows from Operating Activities | | |
| Net income | \$ 52 | \$ 65 |
| Adjustments to reconcile net income to net cash provided by operating activities | | |
| Distributions and equity in (earnings)/loss of unconsolidated affiliates | 6 | (10) |
| Depreciation and amortization | 161 | 160 |
| Amortization of nuclear fuel | 15 | 14 |
| Amortization and write-off of financing costs and debt discount/premiums | 8 | 9 |
| Amortization of intangibles and out-of-market contracts | (66) | (29) |
| Changes in deferred income taxes and liability for unrecognized tax benefits | 49 | 47 |
| Changes in nuclear decommissioning trust liability | 9 | 9 |
| Changes in derivatives | 132 | 90 |
| Changes in collateral deposits supporting energy risk management activities | (150) | (120) |
| Gain on sale of assets | | (17) |
| Gain on sale of emission allowances | (14) | (5) |
| Amortization of unearned equity compensation | 7 | 7 |
| Cash used by changes in other working capital | (149) | (114) |
| Net Cash Provided by Operating Activities | 60 | 106 |
| Cash Flows from Investing Activities | | |
| Capital expenditures | (164) | (107) |
| Increase in restricted cash, net | (10) | (5) |
| Decrease in notes receivable | 9 | 9 |
| Purchases of emission allowances | (1) | (61) |
| Proceeds from sale of emission allowances | 31 | 32 |
| Investments in nuclear decommissioning trust fund securities | (144) | (68) |
| Proceeds from sales of nuclear decommissioning trust fund securities | 135 | 59 |
| Proceeds from sale of assets | 12 | 29 |
| Net Cash Used by Investing Activities | (132) | (112) |
| Cash Flows from Financing Activities | | |
| Payment of dividends to preferred stockholders | (14) | (14) |
| Payment of financing element of acquired derivatives | (1) | |
| Payment for treasury stock | (55) | (103) |
| Proceeds from issuance of common stock, net of issuance costs | 2 | |
| Payment of deferred debt issuance costs | (2) | |
| Payments for short and long-term debt | (154) | (19) |
| Net Cash Used by Financing Activities | (224) | (136) |
| Change in cash from discontinued operations | (6) | (5) |

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| | | |
|--|--------|--------|
| Effect of exchange rate changes on cash and cash equivalents | 4 | 2 |
| Net Decrease in Cash and Cash Equivalents | (298) | (145) |
| Cash and Cash Equivalents at Beginning of Period | 1,132 | 777 |
| Cash and Cash Equivalents at End of Period | \$ 834 | \$ 632 |

See notes to condensed consolidated financial statements.

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NRG ENERGY, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1 Basis of Presentation

NRG Energy, Inc., or NRG or the Company, is a wholesale power generation company with a significant presence in major competitive power markets in the United States. NRG is engaged in the ownership, development, construction and operation of power generation facilities, the transacting in and trading of fuel and transportation services, and the trading of energy, capacity and related products in the United States and select international markets.

The accompanying unaudited interim condensed consolidated financial statements have been prepared in accordance with the Securities and Exchange Commission's regulations for interim financial information and with the instructions to Form 10-Q. Accordingly, they do not include all of the information and notes required by generally accepted accounting principles for complete financial statements. The accounting policies NRG follows are set forth in Note 2 to the Company's financial statements in its Annual Report on Form 10-K for the year ended December 31, 2007. The following notes should be read in conjunction with such policies and other disclosures in the Form 10-K. Interim results are not necessarily indicative of results for a full year.

In the opinion of management, the accompanying unaudited interim consolidated financial statements contain all material adjustments consisting of normal and recurring accruals necessary to present fairly the Company's consolidated financial position as of March 31, 2008, and the results of operations and cash flows for the three months ended March 31, 2008 and 2007, respectively. Certain prior-year amounts have been reclassified for comparative purposes.

Stock Split

In May 2007, NRG completed a two-for-one stock split of the Company's outstanding shares of common stock, which was effected through a stock dividend. All share and per share amounts presented for the three months ended March 31, 2007 retroactively reflect the effect of the stock split.

Use of Estimates

The preparation of consolidated financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions. These estimates and assumptions impact the reported amount of assets and liabilities and disclosures of contingent assets and liabilities as of the date of the consolidated financial statements. They also impact the reported amount of net earnings during the reporting period. Actual results could be different from these estimates.

Investment in Affiliate

In February 2008, a wholly owned subsidiary of NRG entered into a 50/50 joint venture with a subsidiary of BP Alternative Energy North America Inc., or BP, to build and own the Sherbino I Wind Farm LLC, or Sherbino. This is a 150 MW wind project consisting of 50 Vestas 3 MW wind turbine generators, located in the West zone of Texas ERCOT power market, or Texas West. A wholly owned subsidiary of NRG is managing the construction, which began in late 2007, and is being conducted by an independent engineering, procurement and construction, or EPC, contractor. The project is scheduled to begin commercial operations during the fourth quarter 2008 at which time an affiliate of BP will manage the operations.

The project will be funded through a combination of equity contributions from the owners and non-recourse project-level debt. NRG delivered a promissory note to Sherbino of \$59 million to support its initial capital contribution, payable no later than December 1, 2008, made an additional contribution of \$17 million on April 18, 2008, and expects to provide another \$11 million by year-end, bringing its total expected equity contribution to \$87 million. NRG has posted a letter of credit in this amount. NRG's maximum exposure to loss is limited to its expected equity investments.

Sherbino has entered into a long-term natural gas swap to mitigate a portion of power price risk for its expected power generation. As the changes in natural gas prices and in Texas West power prices do not meet the required correlation for cash flow hedge accounting, Sherbino will account for the natural gas swap hedge under mark-to-market accounting.

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The Company has determined that Sherbino is a variable interest entity, or VIE, but that the Company is not the primary beneficiary that is required to consolidate Sherbino under FASB Interpretation No. 46(R), *Consolidation of Variable Interest Entities*, or FIN 46R. Consequently, NRG accounts for its investment in Sherbino under the equity method of accounting. NRG's share of mark-to-market results of the natural gas swap will be included in NRG's equity in earnings of Sherbino. NRG's investment at March 31, 2008, net of its promissory note commitment, is a negative \$18 million, which is included in Equity Investments in Affiliates on the condensed consolidated balance sheet.

Recent Accounting Developments

The Company partially adopted SFAS No. 157, *Fair Value Measurements*, or SFAS 157, on January 1, 2008, delaying application for non-financial assets and non-financial liabilities as permitted. This statement defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. In February 2008, the Financial Accounting Standards Board, or FASB, issued FASB Staff Position, or FSP, No. FAS 157-1, *Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13*, which amends SFAS 157 to exclude FASB Statement No. 13, *Accounting for Leases*, or SFAS 13, and other accounting pronouncements that address fair value measurements for purposes of lease classification or measurement under SFAS 13. In February 2008, the FASB also issued FSP No. FAS 157-2, *Effective Date of FASB Statement No. 157*, which permitted delayed application of this statement for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually), until fiscal years beginning after November 15, 2008, and interim periods within those fiscal years. The partial adoption of SFAS 157 did not have a material impact on the Company's consolidated financial position, statement of operations, and cash flows. The Company is currently evaluating the impact of the deferred portion of SFAS 157 on the Company's consolidated financial position, statement of operations, and cash flows.

The Company adopted SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities-including an amendment of FASB Statement No. 115*, or SFAS 159, on January 1, 2008. This statement provides entities with an option to measure and report selected financial assets and liabilities at fair value. This statement requires a business entity to report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. An entity may decide whether to elect the fair value option for each eligible item on its election date, subject to certain requirements described in the statement. The Company does not intend to apply this standard to any of its eligible assets or liabilities; therefore there was no impact on NRG's consolidated financial position, results of operations, or cash flows.

The Company adopted FSP FIN 39-1, *Amendment of FASB Interpretation No. 39*, or FSP FIN 39-1, which amends FIN 39, *Offsetting of Amounts Related to Certain Contracts*, on January 1, 2008. FSP FIN 39-1 impacts entities that enter into master netting arrangements as part of their derivative transactions. Under the guidance in this FSP, entities may choose to offset derivative positions in the financial statements against the fair value of amounts recognized as cash collateral paid or received under those arrangements. The Company chose not to offset positions as defined in this FSP; therefore there was no impact on NRG's consolidated financial position, results of operations, or cash flows.

NRG has non-qualified stock options for which it has insufficient historical exercise data and therefore estimates the expected term using the simplified method, as allowed under Staff Accounting Bulletin (SAB) No. 107, *Share Based Payment*, or SAB 107. In December 2007, the SEC issued SAB No. 110, *Certain Assumptions Used in Valuation Methods*, which eliminates the December 31, 2007 expiration of SAB 107's permission to use this simplified method. NRG will therefore continue to use this simplified method, for as long as the Company deems it to be the most appropriate method.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), *Business Combinations*, or SFAS 141R. This statement applies prospectively to all business combinations for which the acquisition date is on or after the beginning of an entity's first annual reporting period beginning on or after December 15, 2008. The statement establishes principles and requires an acquirer to recognize and measure in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree at fair value at the acquisition date. It also recognizes and measures the goodwill acquired or a gain from a bargain purchase in the business combination and determines what information to disclose to enable users of an entity's financial statements to evaluate the nature and

financial effects of the business combination. As discussed further in Note 11, SFAS 141R will change the application of fresh start accounting to certain of the Company's unrecognized tax benefits. NRG is currently evaluating the impact of this statement upon its adoption on the Company's results of operations, financial position and cash flows.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements - an amendment of ARB No. 51, Consolidated Financial Statements*, or SFAS 160. This Statement amends ARB No. 51 to establish accounting and reporting standards for the minority interest in a subsidiary and for the deconsolidation of a subsidiary. It also amends

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certain of ARB No. 51's consolidation procedures for consistency with the requirements of SFAS 141R. This Statement shall be effective and applied prospectively for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008, except for the presentation and disclosure requirements, which shall be applied retrospectively. NRG is currently evaluating the impact of this statement upon its adoption on the Company's results of operations, financial position and cash flows.

In March 2008, the FASB issued SFAS No. 161, *Disclosures About Derivative Instruments and Hedging Activities*, or SFAS 161. SFAS 161 requires entities to provide enhanced disclosures about how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for under SFAS 133 and its related interpretations, and how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. This statement encourages, but does not require, comparative disclosures for earlier periods at initial adoption. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. The enhanced disclosures regarding derivative and hedging instruments required by SFAS 161 are relevant to NRG, but will not have an impact on the Company's results of operations, financial position, or cash flows.

Note 2 Comprehensive Loss

The following table summarizes the components of the Company's comprehensive loss.

| (In millions) | | |
|--|-------------|-------------|
| Three months ended March 31, | 2008 | 2007 |
| Net income | \$ 52 | \$ 65 |
| Changes in derivative activity, net of tax | (302) | (283) |
| Foreign currency translation adjustment, net of tax | 42 | 10 |
| Unrealized gain on available-for-sale securities, net of tax | 2 | |
| Other comprehensive loss, net of tax | (258) | (273) |
| Comprehensive loss | \$ (206) | \$ (208) |

The following table summarizes the changes in the Company's accumulated other comprehensive loss.

| (In millions) | |
|--|-------------|
| As of March 31, | 2008 |
| Accumulated other comprehensive loss as of December 31, 2007 | \$ (115) |
| Changes in derivative activity, net of tax | (302) |
| Foreign currency translation adjustments, net of tax | 42 |
| Unrealized gain on available-for-sale securities, net of tax | 2 |
| Accumulated other comprehensive loss as of March 31, 2008 | \$ (373) |

Note 3 Discontinued Operations

The assets and liabilities reported in the balance sheet as discontinued operations represent those of Itiquira Energetica S.A., or ITISA. On December 18, 2007, NRG entered into a sale and purchase agreement to sell its 100% interest in Tosli Acquisition B.V., or Tosli, which holds all NRG's interest in ITISA, to Brookfield Power Inc., a wholly-owned subsidiary of Brookfield Asset Management Inc. On April 28, 2008, NRG completed the sale and received \$288 million in cash proceeds. The sale process will remove approximately \$153 million of assets, including \$53 million of cash, and approximately \$116 million of liabilities, including \$61 million of debt, that are classified as

discontinued assets and liabilities on the condensed consolidated balance sheet as of March 31, 2008. NRG expects to recognize a pre-tax gain of approximately \$250 million and net pre-tax cash additions of approximately \$234 million, subject to a purchase price adjustment to be finalized within 90 days of the sale date.

Summarized operating results for the Company's discontinued operations, consisting of ITISA's activities, were as follows:

| (In millions) | | 2008 | 2007 |
|--|----|-------------|-------------|
| Three months ended March 31, | | | |
| Operating revenues | \$ | 15 | \$ 11 |
| Pre-tax income | | 7 | 5 |
| Income from discontinued operations, net of income taxes | | 4 | 4 |

Table of Contents**Note 4 Fair Value of Financial Instruments**

The Company partially adopted SFAS 157 on January 1, 2008, delaying application for non-financial assets and non-financial liabilities as permitted. This statement establishes a framework for measuring fair value, and expands disclosures about fair value measurements.

SFAS 157 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three levels as follows:

Level 1 quoted prices (unadjusted) in active markets for identical asset or liabilities that the Company has the ability to access as of the measurement date. Financial assets and liabilities utilizing Level 1 inputs include active exchange-traded securities and exchange-based derivatives.

Level 2 inputs other than quoted prices included within Level 1 that are directly observable for the asset or liability or indirectly observable through corroboration with observable market data. Financial assets and liabilities utilizing Level 2 inputs include fixed income securities, non-exchange-based derivatives, mutual funds and fair-value hedges.

Level 3 unobservable inputs for the asset or liability only used when there is little, if any, market activity for the asset or liability at the measurement date. Financial assets and liabilities utilizing Level 3 inputs include infrequently-traded, non-exchange-based derivatives and commingled investment funds, and are measured using prUser-specified TAGGED TABLE -->

| Name | Plan Name | Number of Years Credited Service #(1) | Present Value of Accumulated Benefit #(2) | Payments During Last Fiscal Year (\$) |
|--|--------------------------------|---|---|---|
| (a) | (b) | (c) | (d) | (e) |
| John P. Wilmers, Chief Executive Officer | Postretirement Benefit Plan | 26 | 226,087 | |

(1) Years of credited service under the plan are equivalent to the years of total service for the employee through December 31, 2007.

Director Compensation

| | Fees Earned Or Paid in Cash (\$) | Stock Awards (\$) | Option Awards \$(3) | Non-Equity Incentive Plan Compensation (\$) | Change in Pension Value and Nonqualified Deferred Comp. Earn. (\$) | All Other Comp. (\$) | Total (\$) |
|-------------------------|--|-------------------------|---------------------------|---|--|----------------------------|---------------|
| Alvin Abramson(1) | 30,750 | | 7,529 | | | | 38,279 |
| Christopher E. Beach(2) | 26,000 | | 21,938 | | | | 47,938 |
| Mark D. Hasebroock(2) | 27,000 | | 21,938 | | | | 48,938 |
| Marc E. LeBaron(2) | 27,000 | | 7,529 | | | | 34,529 |
| William F. Welsh, II(2) | 27,000 | | 7,529 | | | | 34,529 |

(1)

In 2007, Mr. Abramson received (a) an annual retainer of \$25,000 which consisted of a \$20,000 retainer received as director compensation and a \$5,000 retainer received as Chairman of the audit committee; (b) \$1,000 for each Board meeting attended; and (c) \$500 for each Board meeting held via teleconferencing. Although not included in the above table, the director is reimbursed for his expenses of attending Board meetings.

(2)

In 2007, Messrs. Beach, Hasebroock, LeBaron and Welsh received (a) an annual retainer of \$20,000; (b) \$1,000 for each Board meeting attended; and (c) \$500 for each Board meeting held via teleconferencing. Although not included in the above table, the directors are reimbursed for their expenses of attending Board meetings.

(3)

New directors are automatically granted 23,625 stock options on the first business day after election. They are automatically granted an additional 23,625 stock options every three years as long as they continue to serve on the Board. The stock options vest at a rate of 7,875 shares on the first business day after election and then continue to vest at an additional rate of 7,875 on the first business day after each annual stockholders meeting, assuming they continue to serve on the Board. The stock options have a term of five years and have an exercise price of the fair value on the date of initial grant. See footnote 2 to the Company's consolidated financial statements for the assumptions used in valuing and expensing these awards. As discussed in Proposal II, the Board, subject to stockholder approval, has approved a Restricted Stock Plan to replace the current Stock Option Plan for Non-employee Directors.

Outstanding stock option awards of the December 31 were as follows: Messrs. Abramson, Beach, LeBaron and Welsh, 23,625 shares and Mr. Hasebroock, 47,250 shares.

The Company does not pay directors who are also officers or employees of the Company additional compensation for their service as directors.

REPORT OF THE AUDIT COMMITTEE

The following report of the Audit Committee shall not be deemed to be "soliciting material" or to be "filed" with the Securities and Exchange Commission, nor shall this report be incorporated by reference into any filing made by the Company under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended.

The Audit Committee is comprised of Alvin Abramson (as Chairman), Christopher E. Beach, Marc D. Hasebroock and Marc E. LeBaron, each of whom is an independent director of the Company under the rules adopted by Securities and Exchange Commission and the American Stock Exchange.

The Company's management is responsible for the preparation of the Company's financial statements and for maintaining an adequate system of internal controls and processes for that purpose. KPMG LLP acts as the Company's independent auditors and they are responsible for conducting an independent audit of the Company's annual financial statements in accordance with generally accepted auditing standards and issuing a report on the results of their audit. The Audit Committee is responsible for providing independent, objective oversight of both of these processes.

During the year ended December 31, 2007, the Company's independent registered public accounting firm discussed with the Audit Committee issues required to be discussed by SAS No. 61 "Communications with Audit Committees" as amended by SAS No. 90, "Audit Committee Communications." SAS No. 61, as amended by SAS No. 90, specifies that the discussion should involve management and include such matters as the consistency, clarity and completeness of accounting policies and disclosures.

The Audit Committee reviewed the Company's audited financial statements, the Company's unaudited quarterly consolidated financial statements and met with both management and KPMG LLP to discuss those consolidated financial statements. Management has represented to the Audit Committee that those consolidated financial statements were prepared in accordance with U.S. generally accepted accounting principles.

The Audit Committee has received and reviewed written disclosures from KPMG LLP required by Independent Standards Board Standard No. 1, "Independence Discussions with Audit Committees" (concerning matters that may affect an auditor's independence) and has discussed with KPMG LLP its independence. The Audit Committee has also considered whether the independent registered public accounting firm's provision of non-audit services to the Company is compatible with their independence.

Based upon its review and the discussions noted above, the Audit Committee recommended to the Board that the Company's audited consolidated financial statements be included in the Company's Annual Report on Form 10-K for the year ended December 31, 2007.

The foregoing report is submitted by the Audit Committee in accordance with the requirements of the Securities Exchange Act of 1934 and the rules and regulations there under.

Alvin Abramson (Chair)
Mark D. Hasebroock
Mark E. LeBaron
Christopher E. Beach

PERFORMANCE GRAPH

The following performance graph shows the cumulative total return on the Company's common stock, the S & P 500 Market Value Index and a peer group for the past five years. The peer group is made up of two corporations (namely Concord Camera Corp and Optibase Limited). The peer group is comprised of companies with a market capitalization between approximately \$54 million and \$349 million, each of which is engaged in the sale of products related to the theater, motion picture or image capturing or image projection businesses. The Company is unable to identify, for comparison purposes, any public industry or line-of-business indices because the small number of companies offering similar or competing products are divisions or subsidiaries of much larger, diversified companies.

The performance graph assumes the value of the investment in the common stock and each index was \$100 and that all dividends were reinvested.

**COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*
Among Ballantyne of Omaha, Inc., The S & P 500 Index And A Peer Group**

*

\$100 invested on 12/31/02 in stock or index including reinvestment of dividends. Fiscal year ended December 31.

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www.researchdatagroup.com/S&P.htm

| | Cumulative Total Return | | | | | |
|---------------------------|-------------------------|-----------|-----------|-----------|-----------|-----------|
| | 12/02 | 12/03 | 12/04 | 12/05 | 12/06 | 12/07 |
| Ballantyne of Omaha, Inc. | \$ 100.00 | \$ 381.58 | \$ 592.11 | \$ 643.42 | \$ 696.05 | \$ 769.74 |

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| | Cumulative Total Return | | | | | |
|------------|-------------------------|-----------|-----------|-----------|-----------|-----------|
| S&P 500 | \$ 100.00 | \$ 128.68 | \$ 142.69 | \$ 149.70 | \$ 175.54 | \$ 182.87 |
| Peer Group | \$ 100.00 | \$ 189.89 | \$ 71.78 | \$ 47.59 | \$ 37.00 | \$ 25.05 |

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ADDITIONAL INFORMATION

Compliance with Section 16(a) of the Securities Exchange Act of 1934

Section 16(a) of the Securities Exchange Act of 1934 requires the Company's executive officers and directors, and persons who beneficially own more than 10% of the Company's stock, to file initial reports of ownership and reports of changes in ownership with the Securities and Exchange Commission. Executive officers, directors, and greater than 10% beneficial owners are required by SEC regulations to furnish the Company with copies of all Section 16(a) forms they file. Ballantyne believes that all persons, subject to these reporting requirements filed the required reports on a timely basis during 2007.

Independent Registered Public Accountants

Representatives of KPMG LLP, the independent registered public accountants for the Company for the most recently completed fiscal year, are expected to be present at the stockholders' meeting and will be given the opportunity to make any statement they might desire and will also be available to respond to appropriate questions from stockholders. The following table sets forth the aggregate fees for professional service rendered by KPMG LLP for each of the last two fiscal years:

| Category of Fee | 2007 | 2006 |
|-----------------------|-------------------|-------------------|
| Audit Fees (1) | \$ 399,999 | \$ 155,780 |
| Audit Related Fees(2) | 115,871 | |
| Tax Fees(3) | 60,400 | 52,450 |
| All Other Fees(4) | 154,865 | |
| Total | \$ 731,135 | \$ 208,230 |

- (1) Audit fees consist of the audit of the Company's financial statements, the review of the Company's quarterly financial statements and an audit conducted over an acquired entity for compliance with regulatory filing requirements.
- (2) Audit-Related fees consisted of financial due diligence related to completed acquisitions and other accounting compliance assistance.
- (3) Tax fees were related to tax compliance.
- (4) All Other fees were for financial due diligence related to acquisition targets.

The Audit Committee has implemented pre-approval procedures consistent with the rules adopted by the Securities and Exchange Commission.

There were no fees billed by KPMG LLP for the Company's most recent fiscal year for professional services rendered in connection with financial information systems design and implementation.

The Company's independent registered public accountants for the current fiscal year has not been selected and is pending approval by the Audit Committee.

APPENDIX A

**BALLANTYNE OF OMAHA, INC.
NON-EMPLOYEE DIRECTORS' RESTRICTED STOCK PLAN**

1. PURPOSE.

The purpose of the Ballantyne of Omaha, Inc. Restricted Stock Plan is to provide incentives, which are linked directly to increases in stockholder value, to Non-Employee Directors, in order that they will be encouraged to serve on the Board and exert their best efforts on behalf of the Company.

2. DEFINITIONS.

For purposes of the Plan, the following terms shall be defined as set forth below:

- (a) "Affiliates" means any partnership, corporation, firm, joint venture, association, trust, limited liability company, unincorporated organization or other entity (other than a Subsidiary) that, directly or indirectly through one or more intermediaries, controls, is controlled by, or is under common control with the Company. The term "controlled by" means the possession, direct or indirect, of the power to cause the direction of the management and policies of such entity, whether through the ownership of voting interests or voting securities, as the case may be, by contract or otherwise.
- (b) "Award" means any Restricted Share granted to an Eligible Director under the Plan.
- (c) "Award Agreement" means any written agreement, contract, or other instrument or document evidencing an Award.
- (d) "Beneficiary" means the person, persons, trust or trusts which have been designated by an Eligible Director in his or her most recent written beneficiary designation filed with the Company to receive the benefits specified under this Plan upon the death of the Eligible Director, or, if there is no designated Beneficiary or surviving designated Beneficiary, then the person, persons, trust or trusts entitled by will or the laws of descent and distribution to receive such benefits.
- (e) "Board" means the Board of Directors of the Company.
- (f) "Code" means the Internal Revenue Code of 1986, as amended from time to time. References to any provision of the Code shall be deemed to include successor provisions thereto and regulations thereunder.
- (g) "Committee" means a committee appointed by the Board to administer the Plan as provided in Section 3(a).
- (h) "Company" means Ballantyne of Omaha, Inc., a corporation organized under the laws of Delaware, or any successor corporation.
- (i) "Eligible Director" means any individual who (i) is now, or hereafter becomes, a member of the Board; (ii) is neither an Employee nor an Officer of the Company or of any Subsidiary or Affiliate on the date of the grant of the Award; and (iii) has not elected to decline to participate in the Plan pursuant to the immediately succeeding sentence. A Director otherwise eligible to participate in the Plan may make an irrevocable, one-time election, by written notice to the Corporate Secretary.
- (j) "Exchange Act" means the Securities Exchange Act of 1934, as amended from time to time. References to any provision of the Exchange Act shall be deemed to include successor provisions thereto and regulations thereunder.
- (k) "Fair Market Value" means, with respect to Shares or other property, the fair market value of such Shares or other property determined by such methods or procedures as shall be established from time to time by the Committee. If the Shares are listed on any established stock

exchange or a national market system, unless otherwise determined by the Committee in good faith, the Fair Market Value of Shares shall mean the closing price per Share on the date in question (or, if the Shares were not traded on that day, the next preceding day that the Shares were traded) on the principal exchange or market system on which the Shares are traded, as such prices are officially quoted on such exchange.

(l) "Officer" means an individual elected or appointed by the Board or by the board of directors of a Subsidiary, or chosen in such other manner as may be prescribed by the by-laws of the Company or a Subsidiary, as the case may be, to serve as such. A Chairman of the Board who is not also an employee of the Company shall not be considered an Officer.

(m) "Participant" means an Eligible Director who has been granted an Award under the Plan.

(n) "Plan" means this Ballantyne of Omaha, Inc. Non-Employee Directors' Restricted Stock Plan.

(o) "Restricted Shares" means an Award of Shares under Section 5 hereof that may be subject to certain restrictions and to a risk of forfeiture.

(p) "Rule 16b-3" means Rule 16b-3, as from time to time in effect and applicable to the Plan and Participants, promulgated by the Securities and Exchange Commission under Section 16 of the Exchange Act.

(q) "Subsidiary" means any entity (other than the Company) in an unbroken chain of entities beginning with the Company if each of the entities (other than the last entity in the unbroken chain) owns shares possessing 50% or more of the total combined voting power of all classes of equity interests in one of the other entities in the chain, unless the Committee determines to exclude the entity from this definition.

3. ADMINISTRATION.

(a) *Composition and Authority of the Committee.* The Plan shall be administered by a the Compensation Committee. All awards made by the Compensation Committee shall be subject to the approval of the Board.

(b) *Manner of Exercise of Committee Authority.* The Committee shall have sole discretion in exercising its authority under the Plan. Any action of the Committee with respect to the Plan shall be final, conclusive, and binding on all persons, including the Company, Subsidiaries, Affiliates, Eligible Directors, any person claiming any rights under the Plan from or through any Eligible Directors and stockholders of any of the foregoing. The Committee may delegate to other members of the Board or officers or managers of the company or any Subsidiary or Affiliate the authority, subject to such terms as the Committee shall determine, to perform administrative functions with respect to the Plan.

(c) *Limitation of Liability.* Each member of the Committee shall be entitled to, in good faith, rely or act upon any report or other information furnished to him or her by an officer or other employee of the Company or any Subsidiary or Affiliate, the Company's independent certified public accountants or other professional retained by the Company to assist in the administration of the Plan. No member of the Committee, and no officer or employee of the Company acting on behalf of the Committee, shall be personally liable for any action, determination, or interpretation taken or made in good faith with respect to the Plan, and all members of the Committee and any officer or employee of the Company acting on their behalf shall, to the extent permitted by law, be fully indemnified and protected by the Company with respect to any such action, determination or interpretation.

4. SHARES SUBJECT TO THE PLAN.

(a) Subject to adjustment as provided in Section 4(b) hereof, the total number of Shares reserved for issuance in connection with Awards under the Plan shall be 120,000 Shares. No Award may be granted if the number of Shares to which such Award relates, when added to the number of Shares previously issued under the Plan exceeds the number of Shares reserved under the applicable provisions of the preceding sentence. If any Awards are forfeited, cancelled, terminated, exchanged or surrendered, or such Award is settled in cash or otherwise terminates without a distribution of Shares to the Participant, any Shares counted against the number of Shares reserved and available under the Plan with respect to such Award shall, to the extent of such forfeiture, settlement, termination, cancellation, exchange or surrender, again be available for Awards under the Plan.

(b) In the event that the Committee shall determine that any dividend in Shares, recapitalization, Share split, reverse split, reorganization, merger, consolidation, spin-off, combination, repurchase or share exchange, or other similar corporate transaction or event, affects the Shares such that an adjustment is appropriate in order to prevent dilution or enlargement of the rights of Eligible Directors under the Plan, then the Committee shall make such equitable changes or adjustments as it deems appropriate and, in such manner as it may deem equitable, adjust any or all of (i) the number and kind of shares which may thereafter be issued under the Plan, and (ii) the number and kind of shares, other securities or other consideration issued or issuable in respect of outstanding Awards. In addition, the Committee is authorized to make adjustments in the terms and conditions of, and the criteria and performance objectives, if any, included in, Awards in recognition of unusual or non-recurring events (including, without limitation, events described in the preceding sentence) affecting the Company or any Subsidiary or Affiliate or the financial statements of the Company or any Subsidiary or Affiliate, or in response to changes in applicable laws, regulations, or accounting principles.

(c) Any Shares distributed pursuant to an Award may consist, in whole or in part, of authorized and unissued Shares or treasury Shares including Shares acquired by purchase in the open market or in private transactions.

5. SPECIFIC TERMS OF AWARDS.

(a) *General.* Awards may be granted on the terms and conditions set forth in this Section 5. In addition, the Committee may impose on any Award, at the date of grant or thereafter (subject to Section 7(d) hereof), such additional terms and conditions, not inconsistent with the provisions of the Plan, as the Committee shall determine.

(b) *Restricted Shares.* The Committee is authorized to grant Restricted Shares to Eligible Directors on the following terms and conditions:

(i) *Issuance and Restrictions.* Restricted Shares shall be subject to such restrictions on transferability and other restrictions, if any, as the Committee may impose at the date of grant or thereafter, which restrictions may lapse separately or in combination at such times, under such circumstances (including, without limitation, upon achievement of performance criteria if deemed appropriate by the Committee), in such installments or otherwise, as the Committee may determine. Except to the extent restricted under the Award Agreement relating to the Restricted Shares, an Eligible Director granted Restricted Shares shall have all of the rights of a stockholder including, without limitation, the right to vote Restricted Shares and the right to receive dividends thereon.

(ii) *Forfeiture.* Except as otherwise determined by the Committee, at the date of grant or thereafter, upon termination of service during the applicable restriction period, Restricted Shares and any accrued but unpaid dividends that are at that time subject to restrictions shall

be forfeited; provided, however, that the Committee may provide, by rule or regulation or in any Award Agreement, or may determine in any individual case, that restrictions or forfeiture conditions relating to Restricted Shares will be waived in whole or in part in the event of terminations resulting from specified causes, and the Committee may in other cases waive in whole or in part the forfeiture of Restricted Shares.

(iii) *Certificates for Shares.* Restricted Shares granted under the Plan may be evidenced in such manner as the Committee shall determine. If certificates representing Restricted Shares are registered in the name of the Eligible Director, such certificates shall bear an appropriate legend referring to the terms, conditions, and restrictions applicable to such Restricted Shares, and the Company shall retain physical possession of the Certificate.

(iv) *Dividends.* Dividends paid on Restricted Shares shall be either paid at the dividend payment date, or deferred for payment to such date as determined by the Committee, in cash or in unrestricted Shares having a Fair Market Value equal to the amount of such dividends. Shares distributed in connection with a Share split or dividend in Shares, and other property distributed as a dividend, shall be subject to restrictions and a risk of forfeiture to the same extent as the Restricted Shares with respect to which such Shares or other property has been distributed.

(c) *Grants.* Any Eligible Director shall be entitled to an award of Restricted Shares automatically on the next succeeding business day following their election to the Board, and on the next succeeding business day after each annual meeting of the shareholders, provided that said Eligible Director shall continue to be a member of the Board on the date of such grant. An Eligible Director who shall receive a grant of Restricted Shares shall be prohibited from selling any of said shares for a period from the date of the issuance of said Restricted Shares until the day prior to the next annual meeting of the Shareholders, following the issuance of said Restricted Shares. In the event that any Eligible Director shall cease to be an Eligible Director prior to that time any such grant shall lapse, and in that event said Eligible Director shall forfeit all Restricted Shares still subject to such restriction.

6. CERTAIN PROVISIONS APPLICABLE TO AWARDS.

(a) *Form of Payment Under Awards.* Subject to the terms of the Plan and any applicable Award Agreement, payments to be made by the Company or a Subsidiary or Affiliate upon the grant or maturation of an Award may be made in such forms as the Committee shall determine at the date of grant or thereafter, including, without limitation, cash, Shares, notes, or other property, and may be made in a single payment or transfer, in installments, or on a deferred bases. The Committee may make rules relating to installment or deferred payments with respect to Awards, including the rate of interest to be credited with respect to such payments, and the Committee may require deferral of payment under an Award if, in the sole judgment with respect to such payments, and the Committee may require deferral of payment under an Award if, in the sole judgment of the Committee, it may be necessary in order to avoid non-deductibility of the payment under Section 162(m) of the Code.

(b) *Nontransferability.* Unless otherwise set forth by the Committee in an Award Agreement, Awards shall not be transferable by an Eligible Director except by will or the laws of descent and distribution (except pursuant to a Beneficiary designation). An Eligible Director's rights under the Plan may not be pledged, mortgaged, hypothecated, or otherwise encumbered, and shall not be subject to claims of the Eligible Director's creditors.

(c) *Noncompetition.* The Committee may, by way of the Award Agreements or otherwise, establish such other terms, conditions, restrictions and/or limitations, if any, of any Award provided they are not inconsistent with the Plan, including, without limitation, the requirement that the Participant not engage in competition with the Company.

7. GENERAL PROVISIONS.

(a) *Compliance with Legal and Trading Requirements.* The Plan, the granting and exercising of Awards thereunder, and the other obligations of the Company under the Plan and any Award Agreement, shall be subject to all applicable federal, state and foreign laws, rules and regulations, and to such approvals by any regulatory or governmental agency as may be required. The Company, in its discretion, may postpone the issuance or delivery of Shares under any Award until completion of such stock exchange or market system listing or registration or qualification of such Shares or other required action under any state or federal law, rule or regulation as the Company may consider appropriate, any may require any Participant to make such representations and furnish such information as it may consider appropriate in connection with the issuance or delivery of Shares in compliance with applicable laws, rules and regulations. No provisions of the Plan shall be interpreted or construed to obligate the Company to register any Shares under federal, state or foreign law. The Shares issued under the Plan may be subject to such other restrictions on transfer as determined by the Committee.

(b) *No Right to Continued Service.* Neither the Plan nor any action taken there under shall be construed as giving any Director the right to be retained as a Non-Employee Director of the Company or any of its Subsidiaries or Affiliates.

(c) *Taxes.* The Company or any Subsidiary or Affiliate is authorized to withhold from any Award granted any payment relating to an Award under the Plan, including from a distribution of Shares, or any payroll or other payment to an Eligible Director, amounts of withholding and other taxes due in connection with any transaction involving an Award, and to take such other action as the Committee may deem advisable to enable the Company and Eligible Directors to satisfy obligations for the payment of withholding taxes and other tax obligations relating to any Award. This authority shall include authority to withhold or receive Shares or other property and to make cash payments in respect thereof in satisfaction of an Eligible Director's tax obligations; provided, however, that the amount of tax withholding to be satisfied by withholding Shares shall be limited to the minimum amount of taxes, including employment taxes, required to be withheld under applicable Federal, state, local and foreign law.

(d) *Changes to the Plans and Awards.* The Board may amend, alter, suspend, discontinue, or terminate the Plan or the Committee's authority to grant Awards under the Plan without the consent of stockholders of the Company or Participants, except that any such amendment or alteration shall be subject to the approval of the Company's stockholders to the extent such stockholder approval is required under the rules of any stock exchange or automated quotation system on which the Shares may then be listed or quoted; provided, however, that, without the consent of an affected Participant, no amendment, alteration, suspension, discontinuation, or termination of the Plan may materially and adversely affect the rights of such Participant under any Award theretofore granted to him or her. The Committee may waive any conditions or rights under, amend any terms of, or amend, alter, suspend, discontinue or terminate, any Award theretofore granted, prospectively or retrospectively; provided, however, that, without the consent of a Participant, no amendment, alteration, suspension, discontinuation or termination of any Award may materially and adversely affect the rights of such Participant under any Award theretofore granted to him or her.

(e) *No Rights to Awards; No Stockholder Rights.* No Award shall confer on any Eligible Director any of the rights of a stockholder of the Company unless and until Shares are duly issued or transferred to the Eligible Directors in accordance with the terms of the Award.

(f) *Unfunded Status of Awards.* With respect to any payments not yet made to a Participant pursuant to an Award, nothing contained in the Plan or any Award shall give any such Participant any rights that are greater than those of a general creditor of the Company; provided, however,

that the Committee may authorize the creation of trusts or make other arrangements to meet the Company's obligations under the Plan to deliver cash, Shares, other Awards, or other property pursuant to any Award, which trusts or other arrangements shall be consistent with the "unfunded" status of the Plan unless the Committee otherwise determines with the consent of each affected Participant.

(g) *Nonexclusivity of the Plan.* Neither the adoption of the Plan by the Board nor its submission to the stockholders of the Company for approval shall be construed as creating any limitations on the power of the Board to adopt such other incentive arrangements as it may deem desirable, and such arrangements may be either applicable generally or only in specific cases.

(h) *Not Compensation for Benefit Plans.* No Award payable under this Plan shall be deemed salary or compensation for the purpose of computing benefits under any benefit plan or other arrangement of the Company for the benefit of its employees unless the Company shall determine otherwise.

(i) *No Fractional Shares.* Unless otherwise determined by the Committee, no fractional Shares shall be issued or delivered pursuant to the Plan or any Award. The Committee shall determine whether cash, other Awards, or other property shall be issued or paid in lieu of such fractional Shares or whether such fractional Shares or any rights thereto shall be forfeited or otherwise eliminated.

(j) *Governing Law.* The validity, construction, and effect of the Plan, any rules and regulations relating to the Plan, and any Award Agreement shall be determined in accordance with the laws of the State of Delaware, without giving effect to principles of conflict of laws thereof.

(k) *Effective Date; Plan Termination.* The Plan shall become effective as of its approval by the stockholders at the 2008 Annual Meeting (the "Effective Date"). The Plan shall terminate as to future awards on the date which is five (5) years after the Effective Date.

(l) *Titles and Headings.* The titles and headings of the Sections in the Plan are for convenience of reference only. In the event of any conflict, the text of the Plan, rather than such titles or headings, shall control.

8. EXECUTION.

To record the adoption of the Plan to read as set forth herein, the Company has caused the Plan to be signed by its President and attested by its Secretary on March 31, 2008.

BALLANTYNE OF OMAHA, INC.

By: /s/ JOHN P. WILMERS

John P. Wilmers, *President*

ATTEST:

By: /s/ KEVIN HERRMANN

Kevin Herrmann, *Secretary*

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BALLANTYNE OF OMAHA, INC.

**THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF
DIRECTORS FOR THE ANNUAL MEETING OF STOCKHOLDERS ON MAY 21, 2008**

The undersigned hereby appoints John P. Wilmers and Kevin S. Herrmann, and each of them, with power to act without the other and with power of substitution, as proxies and attorneys-in-fact and hereby authorizes them to represent and vote, as provided on the other side, all the shares of Ballantyne of Omaha, Inc. Common Stock which the undersigned is entitled to vote, and, in their discretion, to vote upon such other business as may properly come before the Annual Meeting of Stockholders of the Company to be held at the Hilton Hotel, Blackstone Room, 1001 Cass Street, Omaha, Nebraska 68102, on the 21st day of May 2008 at 9:00 a.m. (CDT) or at any adjournment or postponement thereof, with all powers which the undersigned would possess if present at the Meeting.

THIS PROXY WHEN PROPERLY EXECUTED WILL BE VOTED IN THE MANNER DIRECTED HEREIN BY THE UNDERSIGNED STOCKHOLDER. IF NO DIRECTION IS MADE, THIS PROXY WILL BE VOTED FOR THE ELECTION OF THE NOMINEES LISTED, FOR THE ADOPTION OF THE NON-EMPLOYEE DIRECTOR S RESTRICTED STOCK PLAN AND IN ACCORDANCE WITH THE INSTRUCTIONS OF THE BOARD OF DIRECTORS AS TO ANY OTHER MATTERS.

(Continued and to be marked, dated and signed, on the other side)

Address Change/Comments (Mark the corresponding box on the reverse side)

FOLD AND DETACH HERE

You can now access your Ballantyne of Omaha, Inc. account online.

Access your Ballantyne of Omaha, Inc. shareholder/stockholder account online via Investor ServiceDirect® (ISD).

The transfer agent for Ballantyne of Omaha, Inc., now makes it easy and convenient to get current information on your shareholder account.

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- View book-entry information
- View payment history for dividends
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| Proposal 1. | FOR ALL NOMINEES LISTED BELOW | WITHHELD AUTHORITY TO VOTE FOR ALL NOMINEES LISTED BELOW | FOR ALL EXCEPT |
|-----------------------|--|---|---------------------------|
| ELECTION OF DIRECTORS | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |

Nominees:
 01 Alvin Abramson
 02 Marc E. LeBaron
 03 John P. Wilmers

(Instructions: To withhold authority to vote for any individual nominee, mark the **For All Except** box and write the nominee's name on the space provided below.)

| Proposal 2. | FOR | AGAINST | ABSTAIN |
|--|-----------------------|-----------------------|-----------------------|
| Proposal to adopt Non-Employee Directors Restricted Stock Plan | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |

Signature **Signature** **Date**

NOTE: Please sign as name appears hereon. Joint owners should each sign. When signing as attorney, executor, administrator, trustee or guardian, please give full title as such.

FOLD AND DETACH HERE

**WE ENCOURAGE YOU TO TAKE ADVANTAGE OF INTERNET OR TELEPHONE VOTING,
 BOTH ARE AVAILABLE 24 HOURS A DAY, 7 DAYS A WEEK.**

Internet and telephone voting is available through 11:59 PM Eastern Time the day prior to annual meeting day.

Your Internet or telephone vote authorizes the named proxies to vote your shares in the same manner as if you marked, signed and returned your proxy card.

INTERNET

<http://www.proxyvoting.com/btn>

Use the Internet to vote your proxy. Have your proxy card in hand when you access the web site.

OR

TELEPHONE

1-866-540-5760

Use any touch-tone telephone to vote your proxy. Have your proxy card in hand when you call.

If you vote your proxy by Internet or by telephone, you do NOT need to mail back your proxy card.

To vote by mail, mark, sign and date your proxy card and return it in the enclosed postage-paid envelope.

Choose **MLinkSM** for fast, easy and secure 24/7 online access to your future proxy materials, investment plan statements, tax documents and more. Simply log on to **Investor ServiceDirect®** at www.bnymellon.com/shareowner/isd where step-by-step instructions will prompt you through enrollment.

QuickLinks

[NOTICE AND PROXY STATEMENT FOR THE ANNUAL MEETING OF STOCKHOLDERS](#)

[to be held at Hilton Hotel Blackstone Room 1001 Cass Street Omaha, NE 68102](#)

[on](#)

[Wednesday, May 21, 2008 at 9:00 a.m. \(Central time\)](#)

[NOTICE OF ANNUAL MEETING OF STOCKHOLDERS to be held May 21, 2008](#)

[PROXY STATEMENT ANNUAL MEETING OF STOCKHOLDERS MAY 21, 2008](#)

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[AUDIT COMMITTEE](#)

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Director Compensation

REPORT OF THE AUDIT COMMITTEE

PERFORMANCE GRAPH

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN* Among Ballantyne of Omaha, Inc., The S & P 500 Index And A Peer Group

ADDITIONAL INFORMATION

APPENDIX A BALLANTYNE OF OMAHA, INC. NON-EMPLOYEE DIRECTORS' RESTRICTED STOCK PLAN