SMITH INTERNATIONAL INC
Form 11-K
June 27, 2008

Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 11-K

(Mark One)

þ **ANNUAL REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 (NO FEE REQUIRED)**

For the fiscal year ended December 31, 2007

OR

o **TRANSITION REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 (NO FEE REQUIRED)**

For the transition period from __________ to __________

Commission File Number 1-8514

A. Full title of the plan and the address of the plan, if different from that of the issuer named below:

M-I RETIREMENT PLAN
P.O. BOX 42842
HOUSTON, TX 77242-2842

B. Name of issuer of the securities held pursuant to the plan and the address of its principal executive office:

Smith International, Inc.
16740 East Hardy Road
Houston, Texas 77032

Index to Financial Statements and Supplementary Information

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Administrative Committee of the
M-I Retirement Plan:

We have audited the accompanying statements of net assets available for benefits of the M-I Retirement Plan (the Plan) as of December 31, 2007 and 2006, and the related statement of changes in net assets available for benefits for the year ended December 31, 2007. These financial statements are the responsibility of the Administrative Committee. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Plan is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plan s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by the Administrative Committee, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the net assets available for benefits of the Plan as of December 31, 2007 and 2006, and the changes in net assets available for benefits for the year ended December 31, 2007, in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplemental schedule of assets (held at end of year) as of December 31, 2007 is presented for purposes of additional analysis and is not a required part of the basic financial statements, but is supplementary information required by the Department of Labor s Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. The schedule is the responsibility of the Administrative Committee. Such supplemental schedule has been subjected to the auditing procedures applied in our audit of the basic 2007 financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

DELOITTE & TOUCHE LLP
Houston, Texas
June 27, 2008

Table of Contents

M-I RETIREMENT PLAN
STATEMENTS OF NET ASSETS AVAILABLE FOR BENEFITS
AS OF DECEMBER 31, 2007 AND 2006

	2007	2006
ASSETS:		
Investments, at fair value	$ 409,276,569	$ 338,527,263
Receivables-		
Company contributions	9,667,264	13,397,682
Participant contributions	569,864	1,115,875
Total receivables	10,237,128	14,513,557
NET ASSETS AVAILABLE FOR BENEFITS AT FAIR VALUE	419,513,697	353,040,820
Adjustments from fair value to contract value for fully benefit-responsive investment contracts	(273,491)	293,125
NET ASSETS AVAILABLE FOR BENEFITS	$ 419,240,206	$ 353,333,945

The accompanying notes are an integral part of these financial statements.

4

Table of Contents

M-I RETIREMENT PLAN
STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS
FOR THE YEAR ENDED DECEMBER 31, 2007

ADDITIONS:	
Income -	
Interest and dividend income	$ 23,024,813
Net appreciation in fair value of investments (Note 6)	24,153,931
Net investment gain	47,178,744
Contributions-	
Company, net of forfeitures	19,055,763
Participant	19,967,464
Rollover	1,499,555
Total contributions	40,522,782
Transfers from other plans, net	340,765
Total additions	88,042,291
DEDUCTIONS:	
Benefits paid to participants	21,985,322
Administrative expenses	150,708
Total deductions	22,136,030
Net increase	65,906,261
NET ASSETS AVAILABLE FOR BENEFITS AT BEGINNING OF YEAR	353,333,945
NET ASSETS AVAILABLE FOR BENEFITS AT END OF YEAR	$ 419,240,206

The accompanying notes are an integral part of this financial statement.

5

Table of Contents

M-I RETIREMENT PLAN
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT PLAN PROVISIONS

The following description of the M-I Retirement Plan (the Plan) provides only general information about the Plan s provisions in effect for the plan year ended December 31, 2007. Participants should refer to the Plan document for a more complete explanation of the Plan s provisions.

General and Eligibility

The Plan is a defined contribution plan of M-I LLC (the Company). The Company is a majority-owned subsidiary of Smith International, Inc. (Smith). The Plan is operated for the sole benefit of the employees of the Company and their beneficiaries and is subject to the provisions of the Employee Retirement Income Security Act of 1974, as amended (ERISA). The Plan is available to all employees of the Company who meet certain eligibility requirements under the Plan. Participation in the Plan may commence upon the later of the date the employee completes 30 days of continuous active service and the date on which the employee attains the age of 18.

Administration and Trustee

The Company is the plan administrator and sponsor of the Plan as defined under ERISA. The Plan s operations are monitored by an administrative committee (the Administrative Committee) which is comprised of officers and employees of the Company. Vanguard Fiduciary Trust Company (Vanguard Trust or the Trustee) is the trustee of all investments held by the Plan.

Contributions

The Plan allows participants to contribute a percentage of their compensation, as defined by the Plan, subject to certain limitations of the Internal Revenue Code of 1986, as amended (the Code). Employees who are eligible to participate in the Plan and who do not affirmatively elect to 1) not make elective contributions or 2) defer another designated percentage as an elective contribution, will be deemed to have made an automatic elective contribution of three percent of base compensation. At its discretion, the Company may make basic, matching and in certain cases, discretionary matching contributions to each participant s account under the Plan. Participants are eligible to receive a basic contribution equal to three percent of qualified compensation, and a full match on employee contributions of up to 1 ^{1}/2 percent of qualified compensation. In addition, the Company may provide discretionary profit-sharing contributions and discretionary profit-sharing matching contributions based upon financial performance to participants who are employed by M-I LLC on December 31.

Vesting

Participants are fully vested in their contributions and related earnings and vest in Company contributions and related earnings at the rate of 20 percent for each year of service. Upon death, termination of employment by reason of total or permanent disability or retirement from the Company upon reaching the normal retirement age of 65, participants become fully vested in Company contributions and related earnings.

The Plan has certain provisions that provide for service credit for vesting and eligibility purposes for all employees who directly transfer employment between Smith, Wilson International, Inc., a wholly-owned subsidiary of Smith, and the Company.

In connection with the purchase of business operations, the Company may elect to amend the Plan to give past service credit to former employees of the acquired operations who become employees of the Company.

Investment Options

Participants have the option of investing their contributions and the Company s basic, matching and discretionary contributions among one or all of the available investments, including Smith common stock, 24 registered investment company funds and a common/collective trust offered by the Vanguard Group of Investment Companies. Participants may transfer some or all of the balances out of any fund into one or any combination of the other funds, including Smith common stock, at any time, subject to certain limitations.

Administrative Expenses

The Plan is responsible for its administrative expenses. The Company may elect to pay administrative expenses from the forfeitures of the Plan or pay expenses on behalf of the Plan.

Plan Termination

The Company intends for the Plan to be permanent; however, in the event of termination, partial termination or discontinuance of contributions under the Plan, the total balances of all participants shall become fully vested.

Loans

Participants may borrow from their accounts no more than twice annually, provided that they have no more than two outstanding loans, subject to terms specified by the Plan document. The Plan permits participants to borrow the lesser of $50,000 or 50 percent of their vested account balances in the Plan. These loans bear interest at prime and are repaid through payroll withholdings over a period not to exceed five years, except for qualifying loans to purchase a primary residence which may be repaid over an extended period.

Withdrawals and Forfeitures

A participant may elect to receive benefit payments through any one of the several methods provided by the Plan upon termination or retirement. The Plan also provides for hardship distributions to participants with immediate and significant financial needs, subject to authorization by Plan management and limited to the participant s vested account balance.

In the event that a participant terminates employment with the Company, the participant s vested balances will be distributed at the participant s election or distributed if the account balance is less than $5,000. Any unvested Company contributions and related earnings/losses are forfeited if participants do not return to the Company within 60 months of their termination and may be used to reduce the Company s contributions and pay Plan expenses. During 2007, forfeitures of $604,427 and $80,007 were used to reduce the Company s contributions and pay Plan expenses, respectively. Forfeitures available at December 31, 2007 and 2006, totaled $40,987 and $44,759, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accounts of the Plan are maintained on the cash basis of accounting. For financial reporting purposes, however, the financial statements have been converted to an accrual basis in accordance with accounting principles generally accepted in the United States of America.

Table of Contents

Recent Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements* (SFAS 157). SFAS 157 clarifies the definition of fair value for financial reporting, establishes a framework for measuring fair value, and requires additional disclosures about the use of fair value measurements. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. Plan management is currently evaluating the enhanced disclosure requirements of SFAS 157.

Investment Valuation and Income Recognition

The Plan s investments are stated at fair value. Registered investment company funds are valued at quoted market prices which represent the net asset value of shares held by the Plan at year-end. The common/collective trust, which contains fully benefit-responsive investment contracts, is stated at fair value based on the value of the underlying investments and is expressed in units and is then adjusted by the issuer to contract value. Contract value represents contributions made under the contract, plus earnings, less participant withdrawals and administrative expenses. There are no reserves against contract value for credit risk of the contract issue or otherwise. The crediting interest rates were 4.7 percent and 4.8 percent at December 31, 2007 and 2006, respectively. The average yield for the year ended December 31, 2007 was 4.8 percent. The Smith stock fund is valued at its year-end unit closing price (computed by dividing the sum of (i) the year-end market price plus (ii) the uninvested cash position, by the total number of member units). Participant loans are valued at cost which approximates fair value.

Purchases and sales of Plan investments are recorded as of the trade date. The net appreciation or depreciation in the fair value of investments reflected in the accompanying statement of changes in net assets available for benefits includes realized, as well as unrealized, gains or losses on the sale of investments. The net change in realized gains and losses on sales are determined using the actual purchase and sale price of the related investments. The net changes in unrealized gains and losses are determined using the fair values as of the beginning of the year or the purchase price if acquired since that date.

Participant Account Valuation

The Plan provides that net changes in unrealized appreciation and depreciation and gains and losses upon sale are allocated daily to the individual participant s account. The net changes, unrealized and realized, in a particular investment fund are allocated in proportion to the respective participant s account balance in each fund, after reducing the participant s account for distributions, if any.

Dividend and interest income from investments is reported as earned on an accrual basis in the statement of changes in net assets available for benefits and is allocated to participants accounts based upon each participant s proportionate share of assets in each investment fund.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the Administrative Committee to make estimates and assumptions that affect the reported amounts of assets and liabilities and changes therein, and disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

Table of Contents

3. FEDERAL INCOME TAX STATUS

The Plan obtained its latest determination letter on April 16, 2008, in which the Internal Revenue Service (the IRS) stated that the Plan, as then designed, was in compliance with the applicable requirements of the Code.

4. RISKS AND UNCERTAINTIES

The Plan provides for various investments in registered investment company funds, a common/collective trust and Smith common stock. Investment securities, in general, are exposed to various risks, such as interest rate, credit and overall market volatility risk. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values and concentrations of investment securities will occur in the near term and those changes could materially affect the amounts reported in the statement of net assets available for Plan benefits. Historically, the investment mix has remained relatively consistent. The allocation of total Plan assets by investment type at December 31, is as follows:

	2007	2006
Balanced Funds (Stocks and Bonds)	37.7%	39.1%
Domestic Stock Funds	23.9	26.4
Smith International, Inc. common stock	11.9	11.7
Stable Value Fund	8.8	9.1
International Stock Funds	5.8	3.9
Money Market Fund	4.9	3.6
Bond Funds	3.9	2.7
Participant loans	3.1	3.5
	100.0%	100.0%

5. RELATED-PARTY TRANSACTIONS

The Plan invests in shares of common stock of Smith. As Smith is the majority owner of the sponsor, these transactions qualify as party-in-interest transactions. In addition, the Plan invests in shares of registered investment company funds and a common/collective trust fund managed by the Vanguard Group, an affiliate of Vanguard Trust. As Vanguard Trust is the Trustee of the Plan, these transactions qualify as party-in-interest transactions.

6. INVESTMENTS

Individual investments, which exceed five percent of net assets available for Plan benefits as of December 31, are as follows:

	2007	2006
Vanguard Wellington Fund	$131,698,026	$115,214,242
Smith International, Inc. common stock	48,785,379	39,646,289
Vanguard PRIMECAP Fund	42,430,448	39,064,468
Vanguard Retirement Savings Trust	36,145,918	30,461,806
Vanguard Windsor Fund	23,907,906	25,445,380
Vanguard International Growth Fund	23,770,193	13,340,453
Vanguard 500 Index Portfolio Fund	22,410,694	19,265,939

Table of Contents

During 2007, the Plan s investments (including gains and losses on investments bought and sold, as well as held during the year) appreciated in value as follows:

	2007
Balanced funds	$ 1,318,260
Equity funds	(1,412,087)
Smith International, Inc. common stock	24,247,758
	$ 24,153,931

7. RECONCILATION OF FINANCIAL STATEMENTS TO FORM 5500

The following is a reconciliation of net assets available for benefits per the financial statements to Form 5500 at December 31, 2007 and 2006:

	2007	2006
Net assets available for benefits per financial statements, contract value	$ 419,240,206	$ 353,333,945
Add/(Less): Adjustment from contract value to fair value for fully benefit-responsive investment contracts	273,491	(293,125)
Net assets available for benefits per Form 5500, fair value	$ 419,513,697	$ 353,040,820

The following is a reconciliation of the increase in net assets available for benefits per the financial statements to Form 5500 for the year ended December 31, 2007:

	2007
Increase in net assets available for benefits per financial statements	$ 65,906,261
Add: Adjustment from contract value to fair value for fully benefit-responsive investment contracts	273,491
Increase in net assets available for benefits per Form 5500	$ 66,179,752

Table of Contents

M-I RETIREMENT PLAN
EIN: 76-0596553
FORM 5500, SCHEDULE H, PART IV, LINE 4i
SCHEDULE OF ASSETS (HELD AT END OF YEAR)
DECEMBER 31, 2007

(a)	(b) Identity of Issue, Borrower, Lessor or Similar Party	(c) Description of Investment, Including Maturity Date, Rate of Interest, Collateral, Par or Maturity Value	(d) Cost	(e) Current Value
*	Vanguard Group	Vanguard Wellington Fund	**	$ 131,698,026
*	Smith International, Inc.	Smith International, Inc. common stock	**	48,785,379
*	Vanguard Group	Vanguard PRIMECAP Fund	**	42,430,448
*	Vanguard Group	Vanguard Retirement Savings Trust	**	36,145,918
*	Vanguard Group	Vanguard Windsor Fund	**	23,907,906
*	Vanguard Group	Vanguard International Growth Fund	**	23,770,193
*	Vanguard Group	Vanguard 500 Index Portfolio Fund	**	22,410,694
*	Vanguard Group	Vanguard Prime Money Market Fund	**	19,856,179
*	The Plan	Participant loans (highest and lowest interest rates are 9.25% and 4.00%, respectively)	**	12,555,252
*	Vanguard Group	Vanguard Target Retirement 2015 Fund	**	8,098,396
*	Vanguard Group	Vanguard Long-Term Investment Grade Fund	**	7,831,221
*	Vanguard Group	Vanguard Extended Market Index Fund	**	6,111,618
*	Vanguard Group	Vanguard Target Retirement 2025 Fund	**	4,842,297
*	Vanguard Group	Vanguard Total Bond Market Index Fund	**	4,768,606
*	Vanguard Group	Vanguard Target Retirement 2035 Fund	**	3,592,601
*	Vanguard Group	Vanguard Explorer Fund	**	3,029,628
*	Vanguard Group	Vanguard Intermediate-Term Treasury Fund	**	1,888,447
*	Vanguard Group	Vanguard Target Retirement 2020 Fund	**	1,422,324
*	Vanguard Group	Vanguard Target Retirement 2045 Fund	**	1,417,455
*	Vanguard Group	Vanguard Target Retirement 2005 Fund	**	975,039
*	Vanguard Group	Vanguard Long-Term Treasury Fund	**	902,043
*	Vanguard Group	Vanguard Target Retirement 2010 Fund	**	887,515
*	Vanguard Group	Vanguard Short-Term Treasury Fund	**	519,486
*	Vanguard Group	Vanguard Target Retirement 2050 Fund	**	465,245
*	Vanguard Group	Vanguard Target Retirement Income Fund	**	421,745
*	Vanguard Group	Vanguard Target Retirement 2030 Fund	**	323,523
*	Vanguard Group	Vanguard Target Retirement 2040 Fund	**	219,385
		Total investments		$ 409,276,569

* *Party-in-interest.*

** *Cost information is not required for participant-directed investments and, therefore, is not* *included.*

Table of Contents

SIGNATURES

The Plan. Pursuant to the requirements of the Securities Exchange Act of 1934, the trustees (or other persons who administer the employee benefit plan) have duly caused this annual report to be signed on its behalf by the undersigned hereunto duly authorized.

Dated: June 27, 2008	M-I RETIREMENT PLAN
	By: Administrative Committee for the M-I Retirement Plan
	By: /s/ W. Frank Richter
	W. Frank Richter, Member
	By: /s/ Malcolm W. Anderson
	Malcolm W. Anderson, Member

Table of Contents

EXHIBIT INDEX

Exhibit Number	Description
23.1	Consent of Independent Registered Public Accounting Firm

13

D> **(in millions)**

Term loan adjustable interest*
1,425 6.73% 96 $7 $(7) $4 $(4) $10 $3 $(3) $(10)
Unsecured senior notes **
3,600 **7.50% 270 8 (7) 9 (9) 17 (2) 1 (16)

* For the purpose of this sensitivity analysis we have disregarded the portion of the new term loan which will be effectively hedged through the use of interest rate swaps. The principal included in this analysis is the portion that is not covered by the interest rate swap during the 1st year.

** For the purpose of this sensitivity analysis we have calculated the sensitivity of the total amount of unsecured senior notes based on a preliminary

weighted
average interest
rate.

Mandatorily Convertible Preferred Stock sensitivity analysis:

Based on preliminary pricing estimates, the annual preferred dividend rate will be 6%. For informational purposes, we have calculated the impact to Basic and Diluted earnings per share assuming an increase/(decrease) of 0.25% to the annual preferred dividend rate, for the year ended December 31, 2004 and for the nine months ended September 30, 2005

	Increase/(decrease) to income from continuing operations available to common stockholders	Year ended December 31, 2004		Nine months ended September 30, 2005	
		Change to pro forma Basic EPS	Change to pro forma Diluted EPS	Change to pro forma Basic EPS	Change to pro forma Diluted EPS
	(in millions except for per share data)				
Decrease of 0.25%	$ 1.25	$ 0.01	$ 0.01	$	$
Increase of 0.25%	(1.25)		(0.01)	(0.01)	

Table of Contents

Pro Forma Combined Condensed Balance Sheet as of September 30, 2005

	September 30, 2005 (unaudited)							
		Historical			Pro Forma Adjustments			
n thousands)	NRG Energy Inc.	Texas Genco LLC	West Coast Power LLC(25)	Audrain (1)	Refinancing	Acquisition	WCP Acquisition (22)	Pro Forma NRG Combined
urrent Assets								
ash and cash uivalents	$ 504,336	$ 222,393	$ 176,612	$ 15,000	$ (269,209)(2)	$ (335,165)(9)	$ (160,000)(22)	$ 153,96
estricted cash	91,508							91,50
ccounts ceivable, net	308,839	212,385	48,372					569,59
urrent portion of tes receivable	24,934							24,93
come taxes ceivable	31,237							31,23
ventory	203,547	113,918	16,618	(1,064)				333,01
erivative struments luation	451,545		88,816					540,36
epayments and her current sets	129,289	7,931	26,340					163,56
ollateral on posit in support energy risk anagement tivities	631,436		10,000					641,43
eferred income xes	44,832					391,221(10)		436,05
urrent assets ld for sale and scontinued erations		23,497						23,49
otal current sets	2,421,503	580,124	366,758	13,936	(269,209)	56,056	(160,000)	3,009,16
operty, plant d equipment, t	3,226,714	3,541,822	380,920	(171,000)		4,942,801(10)	(289,842)(22),(23)	11,631,41
her assets								
odwill Texas enco LLC		790,893				(790,893)(10)		
odwill NRG ergy, Inc.						2,371,026(10)		2,371,02

quity vestments in filiates	651,412						(223,066)(23)	428,34
otes receivable, ss current rtion	712,020			(239,930)				472,09
tangible assets, t	268,897	769,332	3,844			1,309,007(10)	12,354(22)	2,363,43
erivative struments, net	31,973							31,97
nded letter of edit	350,000				(350,000)(3)			
her non-current sets	132,848	111,160			720(4)	(39,170)(11)		205,55
uclear commissioning ist		305,392						305,39
tal other assets	2,147,150	1,976,777	3,844	(239,930)	(349,280)	2,849,970	(210,712)	6,177,81
otal assets	$ 7,795,367	$ 6,098,723	$ 751,522	$ (396,994)	$ (618,489)	$ 7,848,827	$ (660,554)	$ 20,818,40
abilities								
urrent portion of ng-term debt	176,024	18,045			(80,000)(5)	610,200(12)		724,26
ccounts payable ide	152,968	168,913	17,206					339,08
erivative struments luation	973,143	145,255	88,643					1,207,04
her bankruptcy ttlement	175,945			(172,321)				3,62
ccrued expenses d other current bilities	389,396	154,763	4,894		(84,019)(6)	(86,426)(13)		378,60
ut-of market ntracts		249,419				1,076,150(10)		1,325,56
tal current bilities	1,867,476	736,395	110,743	(172,321)	(164,019)	1,599,924		3,978,19
ong-term debt d capital leases	2,866,374	2,724,865		(239,930)	(364,837)(7)	2,298,763(14)		7,285,23
eferred income xes	103,199	181,513				259,983(10)		544,69
erivative struments luation	198,554	188,023						386,57
uclear commissioning		291,829						291,82

serve uclear commissioning ust liability		293,771						293,77
ut-of-market ntracts	302,639	689,552				1,429,895(10)		2,422,08
her non-current bilities	190,897	219,663	5,472					416,03
otal liabilities	5,529,139	5,325,611	116,215	(412,251)	(528,856)	5,588,565		15,618,42
inority Interest	869							86
625% onvertible eferred Stock	246,191							246,19
ockholders uity *4%* onvertible eferred Stock	406,155							406,15
% Convertible eferred Stock						486,250(15)		486,25
embers equity		1,073,871	635,307			(1,073,871)(16)	(635,307)(22),(23)	
ommon stock	1,000					396(17)		1,39
dditional paid-in pital	2,427,322					1,912,460(18)		4,339,78
etained earnings	203,973			15,257	(89,633)(8)	(29,261)(19)	(25,247)(24)	75,08
ss treasury ock, at cost	(663,529)					663,529(20)		
ccumulated her mprehensive ss	(355,753)	(300,759)				300,759(16)		(355,75
otal ockholders uity	2,019,168	773,112	635,307	15,257	(89,633)	2,260,262	(660,554)	4,952,91
otal Liabilities d ockholders uity	$ 7,795,367	$ 6,098,723	$ 751,522	$ (396,994)	$ (618,489)	$ 7,848,827	$ (660,554)	$ 20,818,40

10

Table of Contents

Footnotes to Pro Forma Combined Balance Sheet as of September 30, 2005

(1) On December 8, 2005 NRG Energy, Inc. signed an Asset and Purchase Sale Agreement with AmerenUE to sell all of the assets of Audrain. For purposes of these pro forma statements we have reflected the sale of assets of Audrain as a discontinued operation. The purchase price is $115 million, and the expected gain for the sale of Audrain is approximately $15 million before tax.

I. Refinancing of NRG s Long-Term Debt

(2) Reflects the proceeds from new debt issued by NRG for refinancing purposes and the payment to retire NRG existing debt:

Payment to retire NRG s existing term loan	$ (446,625)
Payment to retire NRG s existing Second Priority Notes	(1,080,412)
Payment to retire NRG s existing revolver balance	(80,000)
Payment of accrued interest for NRG s old debt structure	(25,376)
Refinancing portion of proceeds from issuing the new term loan	446,625
Refinancing portion of proceeds from issuing the new unsecured senior notes	1,080,412
Payment of a premium fee for the retirement of NRG s existing debt	(130,000)
Payment of financing fees for the new debt structure	(33,833)
Total	$ (269,209)

(3) Reflects the retirement of the existing letter of credit facility. We have assumed that the new synthetic letter of credit facility totaling $1 billion will remain off-balance sheet. The existing letter of credit facility required a deposit of $350 million, which will be released upon entering into the new facility.

(4) Reflects adjustment for the reduction of the old debt structure deferred financing costs, and the increase in deferred financing costs for the new debt structure:

Write-off of existing NRG deferred financing costs	$ (33,113)
Addition of new deferred financing costs	33,833
Total	$ 720

(5) Movement for current portion of long-term debt for the new and old debt structure:

Reduction of current portion of NRG s existing term loan	$ (4,500)
Reduction of NRG s existing revolver balance	(80,000)
Increase for current portion of new term loan	4,500
Total	$ (80,000)

(6) To record the reduction in accrued expenses for the payment of accrued interest and the current tax effect of the financing expenses:

Reduction in accrued interest due to payment	$ (25,376)
Reduction in accrued taxes payable due to the write off of financing costs and incurring premium fees	(58,643)
Total	$ (84,019)

(7) Movement for non-current portion of long-term debt related to the existing debt and proceeds from new debt issued by NRG:

Reduction of non-current portion of NRG s existing term loan	$ (442,125)
Reduction of non-current portion of NRG s existing Second Priority Notes	(1,080,412)
Reduction of non-current portion of NRG s existing funded letter of credit facility	(350,000)
Write-off of premium from NRG s existing debt	(14,837)
Addition to non-current debt which reflects the refinancing portion of the new term loan	442,125
Addition to non-current debt which reflects the refinancing portion of the new unsecured senior notes	1,080,412
Total	$ (364,837)

(8) Reflects write-offs of deferred financing fees associated with NRG s existing debt structure, and fees related to the refinancing:

Write-off of deferred finance costs associated with NRG s existing debt	(33,113)
Write-off of premium from NRG s existing debt	14,837

11

Payment of a premium fee for the retirement of NRG s existing debt	(130,000)
Tax effect of the above adjustments	58,643
Total	$ (89,633)

II. Acquisition of Texas Genco

(9) Reflects the proceeds from new debt issued by NRG, issuance of common and preferred stock as a source of funds to acquire Texas Genco, less payments to the Texas Genco shareholders and payments to retire Texas Genco existing debt:

Payment of accrued interest for Texas Genco s old debt structure	(26,437)
Payment to retire Texas Genco s existing term loan	(1,614,000)
Payment to retire Texas Genco s existing Senior Notes	(1,125,000)
Payment to Sellers	(4,398,822)
Proceeds from issuing the acquisition financing portion of the new term loan	3,128,375
Proceeds from issuing the acquisition financing portion of the new unsecured senior notes	2,519,588
Proceeds from issuance of 23,474,178 shares of common stock at $42.60 a share, net of issue costs	970,000
Proceeds from issuance of 2,000,000 shares of preferred stock at $250 a share, net of issue costs	486,250
Payment of the Bridge Loan Commitment Fee	(44,625)
Fees for early repayment of existing Texas Genco debt	(99,000)
Investment banker fees	(16,700)
Payment of financing fees for the acquisition financing portion of the new debt structure	(114,794)
Total	$ (335,165)

(10) The preliminary total consideration for the purchase of Texas Genco is comprised of the following:

Cost of 19,346,788 NRG common shares issued to Sellers from treasury	663,529
Value in excess of cost of 19,346,788 NRG common shares issued to Sellers from treasury	214,235
Par value of 16,059,532 newly issued NRG common shares to Sellers	161
Value in excess of par value of 16,059,532 newly issued NRG common shares to Sellers	728,460
Sub-total	1,606,385
Cash paid to Sellers	4,398,822
Fees for early repayment of existing Texas Genco debt	99,000
Investment banker fees	16,700
Total	$ 6,120,907

The preliminary purchase price allocation is as follows:

Elimination of Members Equity	1,073,871
Elimination of Accumulated Other Comprehensive Loss	(300,759)
Net book value of Texas Genco assets and liabilities acquired	773,112
Write-off of Texas Genco deferred financing fees	(109,339)
Step-up in Fixed Assets of Texas Genco	4,942,801
Step-up in emission credit inventory of Texas Genco	1,309,007

Incremental assumption of a liability for the fair value of current out-of-market contracts	(1,076,150)
Incremental assumption of a liability for the fair value of non-current out-of-market contracts	(1,429,895)
Goodwill recorded by Texas Genco from prior acquisition	(790,893)
Increase in current deferred tax asset	391,221
Increase in non-current deferred tax liability	(259,983)
Goodwill	2,371,026
Total	$ 6,120,907

Due to the lack of asset appraisals and a future closing date, it is very difficult to estimate a pro forma allocation of purchase price. However, for purposes of these pro forma statements, we have assumed that the consideration in excess of the net assets acquired is related to a step-up in the value of Texas Genco s fixed assets, a step-up in the value of Texas Genco s emission credit inventory and goodwill. Once the Acquisition is closed, the purchase price and allocation may change significantly from the pro forma amounts included herein based on the results of appraisals, changes in market prices, the purchase price and allocation to net assets acquired and liabilities assumed and other analyses, which the Company is obtaining. The other analyses include actuarial studies of employee benefit plans, income tax effects of the Acquisition, analyses of operations to identify assets for disposition and the evaluation of staffing requirements necessary to meet future business needs. Ultimately, the excess of the purchase price over the fair value of the net tangible and identified intangible assets acquired will be recorded as goodwill.

(11) Reflects adjustment for the reduction of Texas Genco s old debt structure deferred financing costs, and the increase in deferred financing costs for the acquisition financing:

Write-off of existing Texas Genco deferred financing costs	$ (109,339)
Write-off of Bridge Loan Commitment Fee	(44,625)
Addition of new deferred financing costs for the acquisition financing	114,794
Total	$ (39,170)

(12) Movement for current portion of long-term debt related to the Texas Genco existing debt and proceeds from the new debt issued by NRG for the acquisition financing:

Reduction of current portion of Texas Genco s existing term loan	(16,300)
Addition to current debt which reflects the acquisition financing of the new term loan	626,500
Total	$ 610,200

(13) To record the reduction in accrued expenses for the payment of accrued interest and the current tax effect of the acquisition financing expenses and to accrue for an expense related to change of control expenses:

Reduction in Texas Genco s accrued interest due to payment	$ (26,437)
Reduction in accrued expenses due to payment of the Bridge Loan Commitment Fee	(44,625)
Increase in accrued expenses related to change of control clause	3,781
Reduction in accrued taxes payable	(19,145)
Total	$ (86,426)

(14) Movement for non-current portion of long-term debt related to the Texas Genco existing debt and proceeds from the new debt issued by NRG for the acquisition financing:

Reduction of non-current portion of Texas Genco s existing term loan	(1,597,700)
Reduction of non-current portion of Texas Genco s existing unsecured senior notes	(1,125,000)
Addition to non-current debt which reflects the acquisition financing of the new term loan	2,501,875
Addition to non-current debt which reflects the acquisition financing of the new unsecured senior notes	2,519,588
Total	$ 2,298,763

(15) Reflects the proceeds net of issuance costs for the issuance of 2,000,000 shares of 6% Mandatorily Convertible Preferred Stock at $250 a share.

(16) Elimination of Texas Genco s historical members equity and accumulated other comprehensive loss.

(17) Reflects the par value of 16,059,532 shares of NRG s common stock issued to Sellers due to the acquisition, and the par value of 23,474,178 shares of NRG common stock issued to the public.

(18) Reflects excess of fair value of $45.37 a share over par value for 16,059,532 shares of common stock issued to Sellers due to the acquisition, the excess of fair value of $42.60 over par value for the issue of 23,474,178 shares of NRG common stock to the public and the excess of fair value of $45.37 a share over cost for the 19,346,788 shares of NRG common stock issued to Sellers from NRG s treasury.

Fair value in excess of par value of newly issued NRG common shares to Sellers	$ 728,460
Fair value in excess of par value for the issue of NRG common stock to the public	969,765
Fair value in excess of cost of NRG common shares issued to Sellers from treasury	214,235
Total	$ 1,912,460

(19) Reflects write-offs of Bridge Loan Commitment Fee and change of control expenses:

Write-off of Bridge Loan Commitment Fee	(44,625)

13

Expenses related to change of control clauses	(3,781)
Tax effect of the above adjustments	19,145
Total	$ (29,261)

(20) Reflects the issue of 19,346,788 shares of NRG common stock to Sellers from NRG s treasury, at cost.

III. Acquisition of WCP and Sale of Rocky Road:

(21) On December 27, 2005, NRG entered into purchase and sale agreements for projects co-owned with Dynegy. Under the agreements, NRG will acquire Dynegy s 50% ownership interest in WCP, and become the sole owner of WCP s 1,808 MW of generation in Southern California. In addition, NRG is selling to Dynegy its 50% ownership interest in Rocky Road, a 330 MW gas-fueled, simple cycle peaking plant located in Dundee, Illinois. Both of these transactions are conditioned upon one another and NRG will pay Dynegy a net purchase price of $160 million at closing. NRG will fund the net purchase price with cash held by the WCP partnership. NRG anticipates closing both transactions during the first quarter 2006.

(22) The total consideration for the WCP Acquisition is comprised of the following:

Cash paid to Dynegy, Inc.	160,000
Fair value of our 50% investment in Rocky Road	45,000
Total pro forma Purchase Price for the WCP Acquisition	$ 205,000

The preliminary purchase price allocation is as follows:

Purchase price allocation:	
Net book value of 50% of WCP assets and liabilities acquired	317,654
Incremental reduction in value in 50% of WCP s fixed assets	(120,255)
Incremental increase in value in 50% of WCP s land	24,576
Incremental increase in value in 50% of WCP s emission credit inventory	18,751
Total allocation	240,726
Excess over cost, or Negative Goodwill	$ (35,726)
Negative Goodwill is assigned proportionately to reduce the value of fixed assets	(12,970)
Negative Goodwill is assigned proportionately to reduce the value of land	(16,359)
Negative Goodwill is assigned proportionately to reduce the value of emission credit inventory	(6,397)
Total amount allocated after assignment of Negative Goodwill	$ 205,000

Per our current valuation of WCP s assets and liabilities, the transaction included an element of an excess over cost, or Negative Goodwill, which has been proportionately allocated to reduce the value of WCP s acquired assets as noted in the table above. Following the proportionate allocation of negative goodwill, the incremental increase/(decrease) in value to the acquired assets is as follows:

Final incremental decrease in value in 50% of WCP s fixed assets	(133,225)
Final incremental increase in value in 50% of WCP s land	8,217
Final incremental increase in value in 50% of WCP s emission credit inventory	12,354

We have not associated any deferred taxes to the WCP Acquisition as we believe that the value of the assets and liabilities acquired will be equal for tax and financial reporting purposes.

As it is difficult to estimate a pro forma allocation of purchase price without completed asset appraisals, we have made a preliminary allocation estimate based on the latest available information. For purposes of these pro forma statements we have assumed that the consideration paid below the historical book value of net assets acquired is related to the reduction in the fair value of WCP s fixed assets, with an offsetting increase in fair value in WCP s land and an increase in the fair value of WCP s emission credit inventory. Once the WCP Acquisition is closed, the purchase price and allocation may change significantly from the pro forma amounts included herein based on the results of appraisals, changes in market prices and analyses of the income tax effects of the acquisition.

(23) The reduction in our equity investments reflects the sale of Rocky Road and consolidation of our WCP investment:

14

Equity investment in Rocky Road	70,247
Equity investment in WCP	152,819
Total	223,066

The allocation of NRG s equity investment s carrying value for 50% of WCP is as follows:

Current carrying value of NRG s 50% investment in WCP	152,819
Allocation of current carrying value:	
Net book value of 50% of WCP s assets and liabilities acquired	317,653
Incremental reduction in value in 50% of WCP s fixed assets	(164,834)
Total allocation	152,819

The total reduction in value of WCP s fixed assets is as follows:

Current WCP Acquisition s incremental decrease in value WCP s fixed assets	(133,225)
Current WCP Acquisition s incremental increase in value of WCP s land	8,217
Incremental reduction in value of WCP s fixed assets as reflected in our 50% equity investment in WCP	(164,834)
Total	(289,842)

(24) We have determined that the fair value of our equity investment in Rocky Road is equal to the negotiated price of $45 million. The current carrying value of our investment in Rocky Road is $70.2 million and we therefore expect to record in the fourth quarter of 2005 an other than temporary impairment in our investment. On a pro forma basis the total impairment is in the amount of $25.2 million. As the tax basis of Rocky Road is higher than the consideration received and it is not probable that we can utilize any future benefit from this capital loss, there is no tax expense/(benefit) related to this transaction.

(25) Certain items from WCP s balance sheet have been reclassified to match NRG s balance sheet classifications. The amount of $10 million has been moved from Prepayments and other current assets to Collateral on deposit in support of energy risk management activities . We have also reduced inventory by $3.8 million to reflect the classification of emission credits as an intangible asset. We have also condensed the amount of $16.3 million from Accounts payable affiliates with Accounts Payable .

IV. Supplementary information:

Non-recurring charges we have not included the following non-recurring charges in the Pro forma Statement of Operations for the year ended December 31, 2004:

Premium fee for the retirement of NRG s existing debt	$ 130,000
Bridge loan commitment fee	44,625
Total	$ 174,625

Table of Contents

Pro Forma Combined Statement of Operations for the Nine Months Ended September 30, 2005

	Nine Months Ended September 30, 2005 (unaudited)									
	Historical		NRG Energy, Inc	Pro Forma		Pro Forma Adjustments				Pr
ousands)	NRG Energy, Inc.	Audrain (2)	after Discontinued Operations	Combined Texas Genco LLC (1)	Historical WCP	ROFR (3)	Refinancing	Acquisition	WCP Acquisition (10)	For NR Comb
ting ues										
ues from ty-owned ions	$ 1,942,828	$ (4,955)	$ 1,937,873	$ 1,999,827	$ 216,127	$ 35,623		$ 990,740(6)	$	$ 5,18
ting and ses										
f ty-owned ions	1,555,737	(4,370)	1,551,367	1,306,275	190,461	21,413		84,000(7)	1,297(11)	3,15
ciation zation	144,317		144,317	146,728	16,726	2,370		187,500(8)	(37,258)(12)	46
al, istrative pment	149,641	(249)	149,392	70,032	2,831					22
charges on sale of				(28,356)	(2)					(2
rate tion s	5,651		5,651							
cturing pairment s	6,223		6,223							
operating nd ses	1,861,569	(4,619)	1,856,950	1,494,679	210,016	23,783		271,500	(35,961)	3,82
ting e	**81,259**	**(336)**	**80,923**	**505,148**	**6,111**	**11,840**		**719,240**	**35,961**	**1,35**
Income nse)										
ity t in	(36)		(36)							

gs of idated iaries in gs of solidated tes	82,501		82,501						(22,392)(13)	6
on sales of method ments	15,894		15,894							1
income,	43,208		43,208	4,274	4,654	662		(14,505)(16)	(3,840)(14)	3
ncing ses	(44,036)		(44,036)							(4
st expense	(150,598)		(150,598)	(141,723)			21,625(4)	(143,085)(9)		(41
other se	(53,067)		(53,067)	(137,449)	4,654	662	21,625	(157,590)	(26,232)	(34
ne From nuing ations e Income	28,192	(336)	27,856	367,699	10,765	12,502	21,625	561,650	9,729	1,01
e Tax se	21,201		21,201	24,066		4,376	8,553(5)	328,017(5)	8,106(15)	39
ne From nuing ations	**$ 6,991**	**$ (336)**	**$ 6,655**	**$ 343,633**	**$ 10,765**	**$ 8,126**	**$ 13,072**	**$ 233,633**	**$ 1,623**	**$ 61**
ted e number mon nding	85,860		85,860							14
EPS from uing tions	$ (0.08)		$ (0.08)							$
ted e number mon nding d	85,860		85,860							16
d EPS uing tions	$ (0.08)		$ (0.08)							$

Also see Earnings per Share schedule for the nine months ended September 30, 2005.

Table of Contents

Footnotes to Pro Forma Combined Statement of Operations for the Nine Months Ended September 30, 2005

(1) The Pro Forma Combined Texas Genco LLC Statement of Operations for the Nine Months Ended September 30, 2005 can be found in Exhibit 99.10.

(2) On December 8, 2005 NRG Energy, Inc. signed an Asset and Purchase Sale Agreement with Ameren UE to sell all of the assets of Audrain. For purposes of these pro forma statements we have reflected the sale of assets of Audrain as a discontinued operation.

(3) Reflects pro forma results of additional 13.2% interest in STP acquired in the ROFR for the period from January 1, 2005 until ROFR acquisition date on May 19, 2005.

(4) Reflects the reversal of interest expense associated with NRG s existing debt structure, prior to the acquisition of Texas Genco and the recording of interest expenses associated with the new debt structure:

Reversal of interest expense associated with NRG s existing debt structure	$ 108,782
Interest expense associated with the refinancing of NRG s debt	(87,157)
Total	$ 21,625

(5) Reflects the tax effect of both the pro forma adjustments (pro forma effective tax rate of 39.5%) and Texas Genco s pass-through earnings (pro forma effective tax rate of 34.5% the difference in tax rates is due to a 0% state corporate income tax rate for Texas Genco in the state of Texas), which will now generate taxable income for the combined entity.

(6) Reflects the increase in revenue due to the amortization of the out-of-money contracts recorded for the Acquisition of Texas Genco[a].

(7) Reflects the reversal of Management Fees of $7.5 million which will not be applicable following the Acquisition and the additional amortization expense for emission credits of $91.5 million based on the amount of credits used during this period by Texas Genco.

(8) Reflects the increase in depreciation expense due to the step-up in the value of fixed assets at the Acquisition of Texas Genco[a].

(9) Reflects the reversal of interest expense associated with Texas Genco s existing debt structure and the recording of interest expenses associated with the acquisition financing:

Reversal of interest expense associated with Texas Genco existing debt structure	141,723
Interest expense associated with the acquisition financing	(284,808)
Total	$ (143,085)

(a) Due to the lack of asset appraisals and a future closing date, it is difficult to estimate a pro forma allocation of purchase price. However, for purposes of these pro forma statements we have assumed that the consideration in excess of the net assets acquired is related to a step-up in the value of Texas Genco s fixed assets, a step-up in the value of Texas Genco s emission credit inventory and Goodwill. Once the Acquisition is closed, the excess of the estimated purchase price may differ considerably from these assumptions based on the results of appraisals, finalization of the purchase price as a result of closing and other analyses, which the Company is obtaining. The other analyses include actuarial studies of employee benefit plans, income tax effects of the Acquisition, analyses of operations to identify assets for disposition and the evaluation of staffing requirements necessary to meet future business needs. Ultimately, the excess of the purchase price over the fair value of the net tangible and identified intangible assets acquired will be recorded as goodwill.

On a pro forma basis we have made a number of assumptions per our best estimates. We have assumed an average remaining useful life of 25 years of the fixed assets acquired, rendering a significant incremental pro forma increase in depreciation expense. The amortization of the emission credit inventory is based on Texas Genco s use of credits for the period. The amortization of the assumed liability for Texas Genco s out-of-market contracts is mimicking the expected amortization for the nine month period which would begin on January 1, 2006. Actual results may differ considerably from these pro forma assumptions.

Table of Contents

(10) On December 27, 2005, NRG entered into purchase and sale agreements for projects co-owned with Dynegy. Under the agreements, NRG will acquire Dynegy s 50 percent ownership interest in WCP, and become the sole owner of WCP s 1,808 MW of generation in Southern California. In addition, NRG is selling to Dynegy its 50 percent ownership interest in Rocky Road, a 330 MW gas-fueled, simple cycle peaking plant located in Dundee, Illinois. Both of these transactions are conditioned upon one another and NRG will pay Dynegy a net purchase price of $160 million at closing. NRG will fund the net purchase price with cash held by the WCP partnership. NRG anticipates closing both transactions during the first quarter 2006.

(11) Due to the step-up in value of emission credits pursuant to the WCP Acquisition, this amount reflects the additional amortization expense of emission credits of $1.3 million. This additional expense was derived from the actual amount of credits used during this period by WCP.

(12) Reflects the decrease in depreciation expense due to the reduction in the value of fixed assets at the acquisition of WCP. This reduction in the value of fixed assets is due to the WCP Acquisition as well as the reduction in the value of fixed assets as reflected in NRG s carrying value of it s equity investment in WCP. Also see footnote 24 to the pro forma balance sheet as of September 30, 2005 for further discussion. We have assumed an average remaining useful life of 6 years of the fixed assets acquired, rendering a pro forma decrease in depreciation expense. The remaining useful life of 6 years is based on preliminary estimates based on the latest available information. This assumption may change based on the final appraisal of WCP.

(13) Reflects the reduction in equity earnings in unconsolidated affiliates assuming WCP was a wholly owned subsidiary as of January 1, 2004 and that we no longer owned a 50% interest in Rocky Road. The reduction in equity earnings from these investments is as follows:

Equity earnings from our 50% investment in WCP	$	15,218
Equity earnings from our 50% investment in Rocky Road		7,174
Total	$	22,392

For the nine months ended September 30, 2005, our historical equity earnings from WCP have been higher than 50% of WCP s reported net income. As described in Note 13 to our annual financial statements as of and for the year ended December 31, 2004 as amended in a current report on Form 8-K filed on December 20, 2005, our investment in WCP reflected an intangible asset with a one year remaining life, consisting of the value of WCP s CDWR energy sales contract that expired on December 31, 2004 and a reduction in the value of WCP s fixed assets that was established when we emerged from bankruptcy on December 6, 2003. The effect on equity earnings due to the intangible asset expired on December 31, 2004. However, NRG s equity earnings were adjusted during the nine months ended September 30, 2004 by decreasing WCP s depreciation expense by approximately $9 million to reflect the new basis of their fixed assets.

(14) On a pro forma basis we have assumed the payment of cash to Dynegy of $160 million was paid as of January 1, 2004. This adjustment reflects the decrease in interest income due to a reduced cash balance based on an average annual interest rate of 3.2%.

(15) Reflects the tax effect for both the total pro forma Income from continuing operations before income tax for the WCP Acquisition of $9.7 million and WCP s pass-through earnings of $10.8 million, multiplied by an effective tax rate of 39.5%.

(16) On a pro forma basis we have assumed that the reduction in cash due to the Refinancing and Acquisition of $269.2 million and $335.2 million, respectively (a total of $604.4 million), was paid as of January 1, 2004. This adjustment reflects the decrease in interest income due to a reduced cash balance based on an average annual

interest rate of 3.2%.

Supplementary information:

Sensitivity analysis for adjustable rate financing as part of the refinancing, part of the new term loan and unsecured notes in the amount of $300 million will be subject to an adjustable rate of interest. For the nine months ended September 30, 2005, on a pro forma basis, if the interest rate would increase or decrease by 1/8% for the entire period, income from continuing operations would increase or decrease by $0.6 million, respectively. Also see the sensitivity analysis discussion above Sensitivity Analysis for the preliminary pricing of our common stock, new debt instruments and Mandatorily Convertible Preferred Stock .

18

Table of Contents

Pro Forma Combined Statement of Operations for the Year Ended December 31, 2004

	Year Ended December 31, 2004 (unaudited)									
	Historical		NRG, Energy, Inc	Pro Forma		Pro Forma Adjustments				P
usands)	NRG Energy, Inc.	Audrain (2)	After Discontinued Operations	Combined Texas Genco LLC (1)	Historical WCP	ROFR (3)	Refinancing	Acquisition	WCP Acquisition(9)	Fo N Com
ing ues										
es from y-owned ons	$ 2,347,882	$	$ 2,347,882	$ 2,333,883	$ 725,626	$ 103,270			$ (115,751)(10)	$ 5,3
ing nd es										
y-owned ons	1,490,228	(1,133)	1,489,095	1,394,016	358,823	49,530		112,000(6)	1,782(11)	3,4
ation ation	208,036		208,036	326,212	39,456	6,223		250,000(7)	(49,677)(12)	7
, strative oment	210,185	(495)	209,690	93,102	198					3
harges) sale of					(689)					
te on	16,167		16,167							
nization	(13,390)		(13,390)							(
turing pairment	44,661		44,661		24,348					
perating d es	1,955,887	(1,628)	1,954,259	1,813,330	422,136	55,753		362,000	(47,895)	4,5
ing	**391,995**	**1,628**	**393,623**	**520,553**	**303,490**	**47,517**		**(362,000)**	**(67,856)**	**8**

ncome se)										
y in s of dated aries	(16)		(16)							
n s of olidated s	159,825		159,825						(75,799)(13)	8
owns ses on equity ents	(16,270)		(16,270)							(
ncome,	26,688		26,688	5,654	2,539	676		(9,066)(16)	(2,400)(14)	1
cing es	(71,569)		(71,569)							(7
expense	(266,145)		(266,145)	(185,914)	(82)		60,963(4)	(229,707)(8)		(6
her e	(167,487)		(167,487)	(180,260)	2,457	676	60,963	(238,773)	(78,199)	(6
e From uing ions Income	224,508	1,628	226,136	340,293	305,947	48,193	60,963	(600,773)	(146,055)	2
Tax e	65,364		65,364	33,676		16,605	24,111(5)	(151,575)(5)	63,237(15)	3
e From uing ions	**$ 159,144**	**$ 1,628**	**$ 160,772**	**$ 306,617**	**$ 305,947**	**$ 31,588**	**$ 36,852**	**$ (449,198)**	**$ (209,292)**	**$ 1**
ed number mon ding	99,616		99,616							1
PS from uing ions	**$ 1.59**		**$ 1.61**							**$**
ed number mon	100,371		100,371							1

ding			
EPS			
uing ions	**$ 1.59**	**$ 1.60**	**$**

Also see Earnings per Share schedule for the year ended December 31, 2004.

19

Table of Contents

Footnotes to Pro Forma Combined Statement of Operations for the Year Ended December 31, 2004

(1) The Pro Forma Combined Texas Genco LLC Statement of Operations for the Year Ended December 31, 2004 can be found in Exhibit 99.11.

(2) On December 8, 2005 NRG Energy, Inc. signed an Asset and Purchase Sale Agreement with AmerenUE to sell all of the assets of Audrain. For purposes of these pro forma statements we have reflected the sale of assets of Audrain as a discontinued operation.

(3) Amounts reflect the pro forma results of the additional 13.2% interest in STP acquired in the ROFR as if the acquisition had occurred on January 1, 2004.

(4) Reflects the reversal of interest expense associated with NRG s existing debt structure, prior to the acquisition of Texas Genco and the recording of interest expenses associated with the new debt structure:

Reversal of interest expense associated with NRG s existing debt structure	$ 181,908
Interest expense associated with the refinancing of NRG s debt	(120,945)
Total	$ 60,963

(5) Reflects the tax effect of both the pro forma adjustments (pro forma effective tax rate of 39.5%) and Texas Genco s pass-through earnings (pro forma effective tax rate of 35.2%) which will now generate taxable income for the combined entity.

(6) Reflects the reversal of Management Fees of $10 million which will not be applicable following the Acquisition and the additional amortization expense for emission credits of $122 million based on the amount of credits used during this period by Texas Genco

(7) Reflects the increase in depreciation expense due to the step-up in the value of fixed assets at the Acquisition of Texas Genco[b].

(8) Reflects the reversal of interest expenses associated with NRG s existing debt structure, the reversal of interest expense associated with Texas Genco s existing debt structure and the recording of interest expenses associated with the new debt structure:

Reversal of interest expense associated with Texas Genco existing debt structure	185,914
Interest expense associated with the acquisition financing	(415,621)
Total	$ (229,707)

(9) On December 27, 2005, NRG entered into purchase and sale agreements for projects co-owned with Dynegy. Under the agreements, NRG will acquire Dynegy s 50% ownership interest in WCP, and become the sole owner of WCP s 1,808 MW of generation in Southern California. In addition, NRG is selling to Dynegy its 50% ownership interest in Rocky Road, a 330 MW gas-fueled, simple cycle peaking plant located in Dundee, Illinois. Both of these transactions are conditioned upon one another and NRG will pay Dynegy a net purchase price of $160 million at closing. NRG will fund the net purchase price with cash held by the WCP partnership. NRG anticipates closing both transactions during the first quarter 2006.

(b) Due to the lack of asset

appraisals and a future closing date, it is difficult to estimate a pro forma allocation of purchase price. However, for purposes of these pro forma statements we have assumed that the consideration in excess of the net assets acquired is related to a step-up in the value of Texas Genco s fixed assets, a step-up in the value of Texas Genco s emission credit inventory and Goodwill. Once the Acquisition is closed, the excess of the estimated purchase price may differ considerably from these assumptions based on the results of appraisals, finalization of the purchase price as a result of closing and other analyses, which the Company is obtaining. The other analyses include actuarial studies of employee benefit plans, income tax effects of the Acquisition, analyses of operations to identify assets for disposition and the evaluation of staffing requirements necessary to meet future business needs. Ultimately, the excess of the purchase price over the fair value of the net tangible and identified intangible assets acquired will be recorded as goodwill.

On a pro forma basis we have made a number of assumptions per our best estimates. We have assumed an average remaining useful life of 25 years of the fixed assets acquired, rendering a significant incremental pro forma increase in depreciation expense. The amortization of the emission credit inventory is based on Texas Genco s use of credits for the year. We have not included amortization of the out-of-market contracts for the year ended December 31, 2004 as the majority of these contracts were entered in December 2004 or during 2005. Actual results may differ considerably from these pro forma assumptions.

(10) As described in Note 13 to our financial statements filed on Form 10-K for the year ended December 31, 2004, our investment in WCP reflected an intangible asset with a one year remaining life, consisting of the value of WCP s CDWR energy sales contract that expired on December 31, 2004. This intangible asset was established when we emerged from bankruptcy on December 6, 2003. Assuming we would have purchased the remaining 50% in WCP as of January 1, 2004 we would have established an intangible asset for the entire CDWR energy sales contract of approximately $115.8 million. This intangible asset should be amortized and would reduce WCP s revenue until the expiration of the CDWR energy sales contract that will occur on December 31, 2004. On a pro forma basis, the entire intangible asset has been amortized during the year ended December 31, 2004, reducing WCP s revenue by $115.8 million.

(11) Due to the step-up in value of emission credits pursuant to the WCP Acquisition, this amount reflects the additional amortization expense of emission credits of $1.8 million. This additional expense was derived from the actual amount of credits used during this period by WCP.

(12) Reflects the decrease in depreciation expense due to the reduction in the value of fixed assets at the acquisition of WCP. This reduction in the value of fixed assets is due to the WCP Acquisition as well as the reduction in the value of fixed assets as reflected in NRG s carrying value of it s equity investment in WCP. Also see footnote 24 to the pro forma balance sheet as of September 30, 2005 for further discussion. We have assumed an average remaining useful life of 6 years of the fixed assets acquired, rendering a pro forma decrease in depreciation expense. The remaining useful life of 6 years is based on preliminary estimates based on the latest available information. This assumption may change based on the final appraisal of WCP.

(13) Reflects the reduction in equity earnings in unconsolidated affiliates assuming WCP was a wholly owned subsidiary as of January 1, 2004 and that we no longer owned a 50% interest in Rocky Road. The reduction in equity earnings from these investments is as follows:

Equity earnings from our 50% investment in WCP	$ 68,895
Equity earnings from our 50% investment in Rocky Road LLC	6,904
Total	$ 75,799

For the year ended December 31, 2004, our historical equity earnings from WCP have been lower than 50% of WCP s reported net income. As described in Note 13 to our annual financial statements as of and for the year ended December 31, 2004 as amended in a current report on Form 8-K filed on December 20, 2005, our investment in WCP reflected an intangible asset with a one year remaining life, consisting of the value of WCP s CDWR energy sales contract that expired on December 31, 2004 and a reduction in the value of WCP s fixed assets that was established when we emerged from bankruptcy on December 6, 2003. NRG s equity earnings were significantly decreased due to the amortization of this intangible asset in the amount of $115.8 million during the year ended December 31, 2004. This decrease was slightly offset by the reduction of WCP s depreciation expense in the amount of $31.7 million to reflect the new basis of their fixed assets.

(14) On a pro forma basis we have assumed the payment of cash to Dynegy of $160 million was paid as of January 1, 2004. This adjustment reflects the decrease in interest income due to a reduced cash balance based on an average annual interest rate of 1.5%.

(15) Reflects the tax effect for both the total pro forma Loss from continuing operations before income tax for the WCP Acquisition of $146.1 million and WCP s pass-through earnings of $305.9 million, multiplied by an effective tax rate of 39.5%.

(16) On a pro forma basis we have assumed that the reduction in cash due to the Refinancing and Acquisition of $269.2 million and $335.2 million, respectively (a total of $604.4 million), was paid as of January 1, 2004. This adjustment reflects the decrease in interest income due to a reduced cash balance based on an average annual interest rate of 1.5%.

Supplementary information:

Sensitivity analysis for adjustable rate financing as part of the refinancing, part of the new term loan and unsecured notes in the amount of $300 million will be subject to adjustable rate of interest. For the year ended December 31, 2004, on a pro forma basis, if the interest rate would increase or decrease by 1/8% for the entire year, income from continuing operations would increase or decrease by $1.4 million, respectively. Also see the sensitivity analysis discussion above Sensitivity Analysis for the preliminary pricing of our common stock, new debt instruments and Mandatorily Convertible Preferred Stock .

Table of Contents

Pro Forma Combined Earnings per Share for the Nine Months Ended September 30, 2005

	Nine Months Ended September 30, 2005 (unaudited)									
	Historical		NRG Energy, Inc, after	Pro Forma	Historical	Pro Forma Adjustments				Pr
ousands except per share data)	NRG Energy, Inc.	Audrain (2)	Discontinued Operations	Combined Texas Genco LLC (1)	West Coast Power	ROFR (3)	Refinancing	Acquisition	WCP Acquisition (8)	For NI Comb
EPS:										
e from continuing operations	$ 6,991	$ (336)	$ 6,655	$ 343,633	$ 10,765	$ 8,126	$ 13,072	$ 233,633	$ 1,623	$ 617
red stock dividends	(13,859)		(13,859)					(22,500)(4)		(36
come/(loss) available to common olders from continuing ions	$ (6,868)	$ (336)	$ (7,204)	$ 343,633	$ 10,765	$ 8,126	$ 13,072	$ 211,133	$ 1,623	$ 581
nted average number of common outstanding	85,860		85,860					58,880(5)		144
EPS from continuing tions	$ (0.08)		$ (0.08)							$
ed EPS:										
come/(loss) available to common olders from continuing ions	$ (6,868)	$ (336)	$ (7,204)	$ 343,633	$ 10,765	$ 8,126	$ 13,072	$ 211,133	$ 1,623	$ 581
Dividend from dilutive Preferred								35,100(6)		35
come/(loss) available to common olders from continuing ions	$ (6,868)	$ (336)	$ (7,204)	$ 343,633	$ 10,765	$ 8,126	$ 13,072	$ 246,233	$ 1,623	$ 616
nted average number of common outstanding	85,860		85,860					58,880(5)		144
mental shares attributable to the ce of non-vested restricted stock treasury stock method)								393(7)		
mental shares attributable to the ed conversion of deferred stock if-converted method)								100(7)		
mental shares attributable to the ce of non-vested non-qualifying options (treasury stock method)								242(7)		

mental shares attributable to the ed conversion of the 4% ertible Perpetual Preferred Stock nverted method)			10,500(7)	10
mental shares attributable to the ed conversion of the 6% atorily Convertible Preferred (if-converted method)			10,417(7)	10
dilutive shares	85,860	85,860	80,532	166
ed EPS from continuing tions	$ (0.08)	$ (0.08)		$

22

Table of Contents

Footnotes to Pro Forma Combined Earnings per Share for the Nine Months Ended September 30, 2005

(1) The Pro Forma Combined Texas Genco LLC Statement of Operations for the Nine Months Ended September 30, 2005 can be found in Exhibit 99.10.

(2) On December 8, 2005 NRG Energy, Inc. signed an Asset and Purchase Sale Agreement with AmerenUE to sell all of the assets of Audrain. For purposes of these pro forma statements we have reflected the sale of assets of Audrain as a discontinued operation.

(3) Reflects pro forma results of an additional 13.2% interest in STP acquired in the ROFR for the period from January 1, 2005 until ROFR acquisition date on May 19, 2005.

(4) On a pro forma basis it is assumed that 6% Mandatorily Convertible Preferred Shares have been issued and outstanding as of January 1, 2004. As such, for the nine months ended September 30, 2005, there is an increase in dividends for preferred dividend of 22,500.

The 4% Convertible Perpetual Preferred Shares have been issued and outstanding for the entire nine month period ended September 30, 2005 and are already reflected in the historical NRG Earnings per Share calculation.

(5) This increase in the number of weighted average shares is for shares issued to the public, and for the shares issued to the Sellers:

Shares issued to the Sellers new issuance	35,406
Shares issued to the public	23,474
Total increase in number of weighted average shares	58,880

It should be noted that for pro forma purposes we have assumed that all the shares issued to the Sellers are newly issued. Per the Acquisition Agreement 19,346,788 shares will be issued from treasury, however, on a pro forma basis that is not possible from January 1, 2004 as there were no shares in treasury. For this reason, the weighted average number of common shares outstanding for the nine months ended September 30, 2005 are also higher than what is expected after the closing of the Acquisition.

(6) This increase in the add back for preferred stock dividends is due to the following dilutive preferred stocks:

Dividend for 4% Convertible Perpetual Preferred Shares	12,600
Dividend for 6% Mandatorily Convertible Preferred Shares	22,500
Total Preferred Dividend	35,100

(7) On a pro-forma basis, these items are dilutive.

(8) On December 27, 2005, NRG entered into purchase and sale agreements for projects co-owned with Dynegy. Under the agreements, NRG will acquire Dynegy s 50% ownership interest in WCP, and become the sole owner of WCP s 1,808 MW of generation in Southern California. In addition, NRG is selling to Dynegy its 50% ownership interest in Rocky Road, a 330 MW gas-fueled, simple cycle peaking plant located in Dundee, Illinois. Both of these transactions are conditioned upon one another and NRG will pay Dynegy a net purchase price of $160 million at closing. NRG will fund the net purchase price with cash held by the WCP partnership. NRG anticipates closing both transactions during the first quarter 2006.

Table of Contents

Pro Forma Combined Earnings per Share for the Year Ended December 31, 2004

	Year Ended December 31, 2004 (unaudited)									
	Historical		NRG Energy, Inc, after	Pro Forma	Historical	Pro Forma Adjustments				
nds except per share data)	NRG Energy, Inc.	Audrain (2)	Discontinued Operations	Combined Texas Genco LLC (1)	West Coast Power	ROFR (3)	Refinancing	Acquisition	WCP Acquisition (7)	C
S:										
om continuing operations	$ 159,144	$ 1,628	$ 160,772	$ 306,617	$ 305,947	$ 31,588	$ 36,852	$ (449,198)	$ (209,292)	$
stock dividends	(549)		(549)					(30,000)(4)		
e available to common ers from continuing	$ 158,595	$ 1,628	$ 160,223	$ 306,617	$ 305,947	$ 31,588	$ 36,852	$ (479,198)	$ (209,292)	$
average number of common tstanding	99,616		99,616					58,880(5)		
S from continuing s	$ 1.59		$ 1.61							$
PS:										
e available to common ers from continuing	$ 158,595	$ 1,628	$ 160,223	$ 306,617	$ 305,947	$ 31,588	$ 36,852	$ (479,198)	$ (209,292)	$
from dilutive Stock	549		549					(549)(6)		
e available to common ers from continuing	$ 159,144	$ 1,628	$ 160,772	$ 306,617	$ 305,947	$ 31,588	$ 36,852	$ (479,747)	$ (209,292)	$
average number of common tstanding	99,616		99,616					58,880(5)		
al shares attributable to the f non-vested restricted stock sury stock method)	345		345							
al shares attributable to the onversion of deferred stock onverted method)	67		67							
al shares attributable to the onversion of the 4% le Perpetual Preferred Stock	343		343					(343)(6)		

ted method) al shares attributable to the onversion of the 6% ly Convertible Preferred converted method)			
tive shares	100,371	100,371	58,537
PS from continuing s	$ 1.59	$ 1.60	$

24

Table of Contents

Footnotes to Pro Forma Combined Earnings per Share for the Year Ended December 31, 2004

(1) The Pro Forma Combined Texas Genco LLC Statement of Operations for the Year Ended December 31, 2004 can be found in Exhibit 99.11.

(2) On December 8, 2005 NRG Energy, Inc. signed an Asset and Purchase Sale Agreement with AmerenUE to sell all of the assets of Audrain. For purposes of these pro forma statements we have reflected the sale of assets of Audrain as a discontinued operation.

(3) Amounts reflect the pro forma results of the additional 13.2% interest in STP acquired in the ROFR as if the acquisition had occurred on January 1, 2004.

(4) On a pro forma basis it is assumed that the 6% Mandatorily Convertible Preferred Shares have been issued and outstanding as of January 1, 2004. As such, for the year ended December 31, 2004, there is an increase in dividends for their respective preferred dividend of 30,000.

(5) This increase in the number of weighted average shares is for shares issued to the public, and for the shares issued to the Sellers:

Shares issued to the Sellers new issuance	35,406
Shares issued to the public	23,474
Total increase in number of weighted average shares	58,880

It should be noted that for pro forma purposes we have assured that all the shares issued to the Sellers are newly issued. Per the Acquisition Agreement 19,346,788 shares will be issued from treasury, however, on a pro forma basis that is not possible for January 1, 2004 as there were no shares in treasury. For this reason, the weighted average number of common shares outstanding for the nine months ended September 30, 2005 are also higher than what is expected after the closing of the Acquisition.

(6) On a pro-forma basis, these items have become anti-dilutive.

(7) On December 27, 2005, NRG entered into purchase and sale agreements for projects co-owned with Dynegy. Under the agreements, NRG will acquire Dynegy s 50% ownership interest in WCP, and become the sole owner of WCP s 1,808 MW of generation in Southern California. In addition, NRG is selling to Dynegy its 50% ownership interest in Rocky Road, a 330 MW gas-fueled, simple cycle peaking plant located in Dundee, Illinois. Both of these transactions are conditioned upon one another and NRG will pay Dynegy a net purchase price of $160 million at closing. NRG will fund the net purchase price with cash held by the WCP partnership. NRG anticipates closing both transactions during the first quarter 2006.

Item 9.01 Exhibits

Exhibits	
23.1*	Consent of Deloitte & Touche LLP
99.01*	Texas Genco LLC Quarterly Report to the Noteholders for the Quarterly Period Ended September 30, 2005
99.02*	Texas Genco Holdings, Inc. audited financial statements as of December 31, 2003 and December 31, 2004
99.03*	Texas Genco LLC audited financial statements as of December 31, 2004
99.04*	Pro Forma presentation of the Statements of Operation for Predecessor NRG Energy, Inc. for the year ended December 31, 2002, for the period January 1 through December 5, 2005 to reflect the reclassification for discontinued operations of Audrain
99.05*	Pro Forma presentation of the Statement of Operation for Reorganized NRG Energy, Inc. s for the period December 6, 2003 through December 31, 2003 to reflect the reclassification for discontinued operations of Audrain
99.06**	Unaudited Quarterly Financial Statements for West Coast Power LLC
99.10*	Combined Texas Genco LLC pro forma financial statements for the nine months ended September 30, 2005
99.11*	Combined Texas Genco LLC pro forma financial statements for the year ended December 31, 2004

* Incorporated herein by reference to NRG Energy, Inc. s current report on Form 8-K filed on December 21, 2005.

** Incorporated herein by reference to NRG Energy, Inc. s current report on Form 8-K/A filed on January 5, 2006.

26

Table of Contents

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 hereunto duly authorized.

NRG Energy, Inc. (Registrant)

By: /s/ TIMOTHY W. J. O BRIEN

Timothy W. J. O Brien
Vice President and General
Counsel

Dated: January 23, 2006

27

Table of Contents

Exhibits

23.1*	Consent of Deloitte & Touche LLP
99.01*	Texas Genco LLC Quarterly Report to the Noteholders for the Quarterly Period Ended September 30, 2005
99.02*	Texas Genco Holdings, Inc. audited financial statements as of December 31, 2003 and December 31, 2004
99.03*	Texas Genco LLC audited financial statements as of December 31, 2004
99.04*	Pro Forma presentation of the Statements of Operation for Predecessor NRG Energy, Inc. for the year ended December 31, 2002, for the period January 1 through December 5, 2005 to reflect the reclassification for discontinued operations of Audrain
99.05*	Pro Forma presentation of the Statement of Operation for Reorganized NRG Energy, Inc. s for the period December 6, 2003 through December 31, 2003 to reflect the reclassification for discontinued operations of Audrain
99.06**	Unaudited Quarterly Financial Statements for West Coast Power LLC
99.10*	Combined Texas Genco LLC pro forma financial statements for the nine months ended September 30, 2005
99.11*	Combined Texas Genco LLC pro forma financial statements for the year ended December 31, 2004

* Incorporated herein by reference to NRG Energy, Inc. s current report on Form 8-K filed on December 21, 2005.

** Incorporated herein by reference to NRG Energy, Inc. s current report on Form 8-K/A filed on January 5, 2006.