

Regional Energy Holdings, Inc.

Notes to Consolidated Financial Statements (continued)

(In thousands, except share amounts and Megawatt hours (MWh))

**3. Revenue**

The Company's revenue is comprised of the following:

	Year Ended December 31	
	2011	2010
Electricity revenue	\$	\$
Network revenue	\$	\$
Revenues	\$	\$

**4. Cost of Sales**

The Company's cost of sales is comprised of the following:

	Year Ended December 31	
	2011	2010
Direct energy costs	\$	\$
Unrealized losses on derivative contracts	\$	\$
Cost of sales	\$	\$

**5. Derivative and Hedging Activities**

Regional Energy Holdings, Inc.

Notes to Consolidated Financial Statements (continued)

(In thousands, except share amounts and Megawatt hours (MWh))

5. Derivative and Hedging Activities (continued)

[REDACTED]

The Company had outstanding derivative contracts as tabulated below:

As at December 31	Derivative Instrument	Term	Notional Value	Notional Volume	Unrealized Gain (Loss)
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	\$ [REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	\$ [REDACTED]

The following table presents the balance sheet classification and fair value of derivatives instruments in the consolidated balance sheet as of December 31, 2011 and 2010, by type of contract, segregated by assets and liabilities. While the Company does offset fair value amounts recognized for derivative instruments executed with the same counterparty under a master netting agreement, the table below presents the derivative fair values on a gross basis, before the impact of netting:

Contract Type	Balance Sheet Location	December 31	
		2011	2010
Derivative assets:			
Commodity contracts	Accrued liabilities	\$ [REDACTED]	[REDACTED]
Derivative liabilities:			
Commodity contracts	Accrued liabilities	[REDACTED]	[REDACTED]

Regional Energy Holdings, Inc.

Notes to Consolidated Financial Statements (continued)

*(In thousands, except share amounts and Megawatt hours (MWh))*

**6. Accounts Receivable, Net**

Accounts receivable, net, is comprised of the following:

	Year Ended December 31	
	2011	2010
Billed accounts receivable	\$ [REDACTED]	\$ [REDACTED]
Unbilled accounts receivable	[REDACTED]	[REDACTED]
Total accounts receivable	[REDACTED]	[REDACTED]
Less allowance for doubtful accounts	[REDACTED]	[REDACTED]
Accounts receivable, net	\$ [REDACTED]	\$ [REDACTED]

The Company has granted security interests in all its accounts receivable as security for payment of energy purchases under its Supply Agreement with Macquarie.

**7. Property and Equipment, Net**

Property and equipment, net, is comprised of the following:

	December 31	
	2011	2010
Computer software	\$ [REDACTED]	\$ [REDACTED]
Computer hardware	[REDACTED]	[REDACTED]
Office furniture and equipment	[REDACTED]	[REDACTED]
Leasehold improvements	[REDACTED]	[REDACTED]
Property and equipment, gross	[REDACTED]	[REDACTED]
Less accumulated depreciation	[REDACTED]	[REDACTED]
Property and equipment, net	[REDACTED]	[REDACTED]

**8. Fair Value Measurements**

The Company measures assets and liabilities associated with electricity swap contracts and Warrants at fair value on a recurring basis.

Regional Energy Holdings, Inc.

Notes to Consolidated Financial Statements (continued)

*(In thousands, except share amounts and Megawatt hours (MWh))*

**8. Fair Value Measurements (continued)**

ASC 820 establishes a framework for measuring fair value by creating a hierarchy for observable independent market inputs and unobservable market assumptions. The hierarchy consists of three levels, ranging from the category the FASB deems to be most reliable (Level 1) to a category where fair value is measured using significant unobservable inputs because of the lack of observable market prices for the instrument (Level 3).

The inputs used in the valuation of assets and liabilities under these three levels are as follows:

- Level 1** Inputs represent unadjusted quoted prices for identical assets or liabilities exchanged in active markets
- Level 2** Inputs include directly or indirectly observable inputs other than Level 1 inputs, such as adjusted quoted market prices for similar assets or liabilities exchanged in active markets, quoted prices for identical assets or liabilities in inactive markets, or other quoted prices by market participants other than exchanges
- Level 3** Inputs include unobservable inputs used in the measurement of assets and liabilities where the Company is required to use its own assumptions regarding unobservable inputs because there is little, if any, market activity in the assets or liabilities or related observable inputs that can be corroborated at the measurement date

Derivative assets and derivative liabilities included in Level 2 are valued using multiple price quotes by market participants other than exchanges, industry polling, and other inputs that are derived principally from, or corroborated by, observable market data. For liabilities included in Level 3, the inputs, which include estimations of revenues, operating and other costs, capital spending, discount rates and observable market multiples for assets similar to those of the

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## Regional Energy Holdings, Inc.

### Notes to Consolidated Financial Statements (continued)

*(In thousands, except share amounts and Megawatt hours (MWh))*

#### 8. Fair Value Measurements (continued)

Financial liabilities measured at fair value in the accompanying consolidated balance sheet as of December 31, 2011 and 2010, are as follows:

December 31, 2011	Level 1	Level 2	Level 3	Total
<b>Liabilities:</b>				
Commodity contracts	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]
Warrant liability	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]
<b>Total liabilities</b>	<b>\$ [REDACTED]</b>	<b>\$ [REDACTED]</b>	<b>\$ [REDACTED]</b>	<b>\$ [REDACTED]</b>
<b>December 31, 2010</b>				
<b>Liabilities:</b>				
Commodity contracts	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]
Warrant liability	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]
<b>Total liabilities</b>	<b>\$ [REDACTED]</b>	<b>\$ [REDACTED]</b>	<b>\$ [REDACTED]</b>	<b>\$ [REDACTED]</b>

The Company's policy is to recognize transfers in and transfers out as of the end of the reporting period. During the years ended December 31, 2011 and December 31, 2010 there were no transfers between levels.

Changes in Level 3 financial liabilities, net during the years ended December 31, 2011 and 2010, were as follows:

	Warrant Liability
Liability at January 1, 2010	\$ [REDACTED]
Net realized loss included in earnings	[REDACTED]
Net unrealized loss included in earnings	[REDACTED]
Purchases, sales, issuances and settlements, net	[REDACTED]
Transfers out of Level 3	[REDACTED]
Transfers in to Level 3	[REDACTED]
Liability at December 31, 2010	[REDACTED]
Net realized loss included in earnings	[REDACTED]
Net unrealized loss included in earnings	[REDACTED]
Purchases, sales, issuances and settlements, net	[REDACTED]
Transfers out of Level 3	[REDACTED]
Transfers in to Level 3	[REDACTED]
Liability at December 31, 2011	[REDACTED]

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## Regional Energy Holdings, Inc.

### Notes to Consolidated Financial Statements (continued)

*(In thousands, except share amounts and Megawatt hours (MWh))*

#### 8. Fair Value Measurements (continued)

Transfers in/out of Level 3 represent existing assets or liabilities that were either previously categorized as a higher level and for which the valuation inputs became unobservable or assets and liabilities that were previously classified as Level 3 for which the lowest significant valuation input became observable during the period.

The Warrant liability included in Level 3 represents the fair value of the Warrants outstanding as of December 31, 2011, which was estimated using a Monte Carlo simulation based valuation model. The net unrealized losses for the warrant liability are included in other expense in the consolidated statements of operations.

#### 9. Accrued Liabilities

Current accrued liabilities are comprised of the following:

	December 31	
	2011	2010
Income taxes payable	\$ [REDACTED]	\$ [REDACTED]
Incentive compensation	[REDACTED]	[REDACTED]
Accrued commissions	[REDACTED]	[REDACTED]
Deferred network revenue	[REDACTED]	[REDACTED]
Sales and excise tax payable	[REDACTED]	[REDACTED]
Unrealized losses on derivative contracts	[REDACTED]	[REDACTED]
Accrued interest	[REDACTED]	[REDACTED]
Other accrued liabilities	[REDACTED]	[REDACTED]
Total accrued liabilities	[REDACTED]	[REDACTED]

Regional Energy Holdings, Inc.

Notes to Consolidated Financial Statements (continued)

*(In thousands, except share amounts and Megawatt hours (MWh))*

**10. Supply Agreement**

*Macquarie Energy Supplier Agreement*

[REDACTED]

Regional Energy Holdings, Inc.

Notes to Consolidated Financial Statements (continued)

*(In thousands, except share amounts and Megawatt hours (MWh))*

**10. Supply Agreement (continued)**

[REDACTED]

**Regional Energy Holdings, Inc.**

**Notes to Consolidated Financial Statements (continued)**

*(In thousands, except share amounts and Megawatt hours (MWh))*

**11. Income Taxes**

The provision for income taxes consists of the following:

	December 31	
	2011	2010
<b>Current:</b>		
Federal	\$ [REDACTED]	\$ [REDACTED]
State	[REDACTED]	[REDACTED]
<b>Total current income tax expense</b>	[REDACTED]	[REDACTED]
<b>Deferred:</b>		
Federal	[REDACTED]	[REDACTED]
State	[REDACTED]	[REDACTED]
<b>Total deferred income tax</b>	[REDACTED]	[REDACTED]
<b>Provision for income taxes</b>	[REDACTED]	\$ [REDACTED]

A reconciliation of the federal statutory income tax rate to the Company's effective income tax rate follows:

	Year Ended December 31	
	2011	2010
Federal statutory income tax rate	[REDACTED]	[REDACTED]
State income taxes, net of federal benefit	[REDACTED]	[REDACTED]
Permanent differences	[REDACTED]	[REDACTED]
Change in valuation allowance	[REDACTED]	[REDACTED]
<b>Effective income tax rate</b>	[REDACTED]	[REDACTED]

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## Regional Energy Holdings, Inc.

### Notes to Consolidated Financial Statements (continued)

(In thousands, except share amounts and Megawatt hours (MWh))

#### 11. Income Taxes (continued)

Significant components of the Company's deferred tax assets and liabilities are as follows:

	Year Ended December 31	
	2011	2010
Deferred income tax assets:		
Net operating loss carryforwards	\$ [REDACTED]	\$ [REDACTED]
Unrealized losses on derivative contracts	[REDACTED]	[REDACTED]
Unrealized loss on warrant liability	[REDACTED]	[REDACTED]
Stock based compensation	[REDACTED]	[REDACTED]
Incentive compensation	[REDACTED]	[REDACTED]
Allowance for doubtful accounts	[REDACTED]	[REDACTED]
Total deferred income tax assets	[REDACTED]	[REDACTED]
Valuation allowance	[REDACTED]	[REDACTED]
Total deferred income tax assets, net	\$ [REDACTED]	\$ [REDACTED]
Deferred tax liabilities:		
Depreciation and amortization	[REDACTED]	[REDACTED]
Total deferred income tax liabilities	[REDACTED]	[REDACTED]
Net deferred income tax	\$ [REDACTED]	\$ [REDACTED]

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## Regional Energy Holdings, Inc.

### Notes to Consolidated Financial Statements (continued)

*(In thousands, except share amounts and Megawatt hours (MWh))*

#### 11. Income Taxes (continued)

The Company may be audited by applicable federal and state taxing authorities in which the Company previously filed tax returns for fiscal 2010 and 2009 as follows:

<u>Jurisdiction</u>	<u>Tax Years</u>
Federal	2009-2010
Connecticut	2009-2010
New Jersey	2010
Maryland	2010
Pennsylvania	2010

Currently, the Company is not under any income tax examinations in any jurisdiction.

#### 12. Market and Regulatory

Currently, the Company sells electricity within the jurisdictional territory of 19 different local utilities within the 7 states of Connecticut, Pennsylvania, New Jersey, Maryland, New York, Ohio and Illinois. Although regulatory requirements are determined at the individual state, and administered and monitored by the Public Utility Commission, of each state, operating rules and rate filings for each utility are unique. Accordingly, the Company generally treats each utility distribution territory as a distinct market. Among other things, tariff filings by LDCs for changes in their allowed billing rate to customers in the markets in which the Company operates, significantly impact the viability of the Company's sales and marketing plans, and its overall operating and financial results.

There are no current rate cases or filings in any states that are anticipated to materially impact the Company's financial results.

Regional Energy Holdings, Inc.

Notes to Consolidated Financial Statements (continued)

*(In thousands, except share amounts and Megawatt hours (MWh))*

**13. Stockholder's Equity**

**Preferred Stock**

[REDACTED]

**Warrants Related to the Series A Convertible Preferred Stock**

[REDACTED]

[REDACTED]

Regional Energy Holdings, Inc.

Notes to Consolidated Financial Statements (continued)

*(In thousands, except share amounts and Megawatt hours (MWh))*

**13. Stockholder's Equity (continued)**

**Warrants Issued to Macquarie Energy LLC**

[REDACTED]

**Stock-Based Compensation**

[REDACTED]

**Regional Energy Holdings, Inc.**

**Notes to Consolidated Financial Statements (continued)**

*(In thousands, except share amounts and Megawatt hours (MWh))*

**13. Stockholder's Equity (continued)**

The weighted-average assumptions used to fair value the options in 2010 were as follows:

	<b>December 31 2010</b>
Risk free interest rate	[REDACTED]
Expected life in years	[REDACTED]
Expected dividends	[REDACTED]
Volatility	[REDACTED]

Information with respect to common stock option activities is as follows:

	<b>Options Outstanding</b>		
	<b>Number of Shares</b>	<b>Weighted-Average Exercise Price</b>	<b>Weighted-Average Contractual Life (Years)</b>
Balance at December 31, 2009	[REDACTED]	[REDACTED]	[REDACTED]
Granted	[REDACTED]	[REDACTED]	[REDACTED]
Balance at December 31, 2010 and 2011	[REDACTED]	[REDACTED]	[REDACTED]
Vested and exercisable as of December 31, 2011	[REDACTED]	[REDACTED]	[REDACTED]

**14. Related Party Transactions**

[REDACTED]

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## Regional Energy Holdings, Inc.

### Notes to Consolidated Financial Statements (continued)

*(In thousands, except share amounts and Megawatt hours (MWh))*

#### 15. Commitments and Contingencies

##### Commitments

###### *Surety Bonds*

[REDACTED]

###### *Operating Leases*

[REDACTED]

The future aggregate minimum lease payments under operating lease agreements in existence at December 31, 2011 are as follows:

2012

2013

[REDACTED]

###### *Employee Defined Contribution Plan*

[REDACTED]

Regional Energy Holdings, Inc.

Notes to Consolidated Financial Statements (continued)

(In thousands, except share amounts and Megawatt hours (MWh))

**15. Commitments and Contingencies (continued)**

*Regulatory Proceedings*

The Company is an independent energy marketer of retail electric power to residential and commercial customers across numerous states. Market rules and regulations locally, regionally and state to state change periodically. These changes will likely have an impact upon our business; some may be material and others may not. Some changes may lead to new or enhanced business opportunities, some changes may result in a negative impact to our business. As such, there is no way to impute an exact effect through a cost benefit analysis, because there are many variables. The regulatory process does allow for some participation, and the Company engages in that participation, however, such participation provides no assurance as to the outcome of such proceedings. The Company does not expect proceedings to have a material adverse effect on the Company's financial condition or results of operations.

*Litigation and Other Claims*

[REDACTED]

**16. Subsequent Events**

The Company has evaluated subsequent events through May 9, 2012, the date these financial statements were available to be issued. Based upon this evaluation, there were no material events or transactions during this period that require recognition or disclosure in these financial statements, except as noted below.

Regional Energy Holdings, Inc.

Notes to Consolidated Financial Statements (continued)

*(In thousands, except share amounts and Megawatt hours (MWh))*

**16. Subsequent Events (continued)**

[REDACTED]