

RELIANT ENERGY INC  
Form 8-K  
February 08, 2006

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

---

**FORM 8-K**

**CURRENT REPORT  
PURSUANT TO SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934**

Date of report (Date of earliest event reported): **February 7, 2006**

**RELIANT ENERGY, INC.**

(Exact name of registrant as specified in its charter)

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

**1-16455**  
(Commission File Number)

**76-0655566**  
(IRS Employer  
Identification No.)

**1000 Main Street  
Houston, Texas**  
(Address of principal executive offices)

**77002**  
(Zip Code)

Registrant's telephone number, including area code: **(713) 497-3000**

---

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

Edgar Filing: RELIANT ENERGY INC - Form 8-K

- o Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
  
  - o Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
  
  - o Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
  
  - o Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
-

**In this Current Report on Form 8-K (Form 8-K) and in the exhibit included as part of this report, Reliant Energy refers to Reliant Energy, Inc., and we, us and our refer to Reliant Energy and its subsidiaries.**

**Item 1.01. Entry into a Material Definitive Agreement.**

As discussed below in Item 5.02, we announced the promotion of Mr. Brian Landrum to the position of Executive Vice President, Operations, effective as of February 7, 2006.

In connection with this promotion, the Compensation Committee (the Committee), increased Mr. Landrum's annual base salary from \$365,000 to \$565,000. At the same time, the Committee approved an increase in Mr. Landrum's target award under our 2002 Annual Incentive Compensation Plan for Executive Officers (the AICP Plan) from 60% to 70% of his annual base salary. These decisions were made in consultation with an outside compensation consultant and based on a thorough review of market data for positions involving comparable responsibilities. Under the terms of the AICP Plan, the cash bonus amount is based on achieving a set of corporate, financial and other performance goals established by the Committee. If the performance goals are achieved at or above defined levels, the cash bonus amount paid can range from 20% to 200% of Mr. Landrum's specified target award, depending on the level at which the performance goal was achieved.

**Item 2.02. Results of Operations and Financial Condition.**

On February 8, 2006, we issued a press release (February 8 Press Release) setting forth certain preliminary results for the three and twelve months ended December 31, 2005. A copy of the February 8 Press Release is furnished as Exhibit 99.1 to this Form 8-K.

In analyzing and planning for our business, we use a number of non-GAAP financial measures. A non-GAAP financial measure is a numerical measure of a company's historical or future performance, financial position or cash flow that excludes (includes) amounts, or is subject to adjustments that have the effect of excluding (including) amounts, that are included (excluded) in the most directly comparable measure calculated and presented in accordance with generally accepted accounting principles (GAAP).

We use these non-GAAP financial measures and other reported adjusted items in addition to, and in conjunction with, results presented in accordance with GAAP. These non-GAAP financial measures should not be relied upon to the exclusion of GAAP financial measures. These non-GAAP financial measures reflect an additional way of viewing aspects of our operations that, when viewed with our GAAP results and the accompanying reconciliations to corresponding GAAP financial measures set forth in the financial tables that are attached to the February 8 Press Release, may provide a more complete understanding of factors and trends affecting our business. We strongly encourage investors to review our consolidated financial statements and publicly filed reports in their entirety and not to rely on any single financial measure. Non-GAAP financial measures are not standardized; therefore, it may not be possible to compare these financial measures with other companies non-GAAP financial measures having the same or similar names.

In this Form 8-K, we discuss the non-GAAP financial measures that appear in the February 8 Press Release, including the reasons that our management believes that these measures provide useful information regarding our financial condition, results of operations and cash flows, as

## Edgar Filing: RELIANT ENERGY INC - Form 8-K

applicable and, to the extent material, the additional purposes, if any, for which these measures are used. Reconciliations of non-GAAP financial measures to the most directly comparable GAAP financial measures are contained in the February 8 Press Release or its attachment. We note that, where non-GAAP financial measures are presented on a forward looking basis, certain factors that could affect GAAP financial measures are not accessible or estimable on a forward-looking basis. These factors could be material and could include future unrealized gains/losses on energy derivatives, mothball/retirements and legal and regulatory settlements.

Copies of this Form 8-K and the February 8 Press Release are available at <http://www.reliant.com/corporate> in the investor relations section.

### **Non-GAAP Financial Measures.**

*Contribution Margin* and *Adjusted Contribution Margin*. We define contribution margin and adjusted contribution margin as follows:

Contribution margin is revenues less (a) purchased power, fuel and cost of gas sold, (b) operation and maintenance, (c) selling and marketing and (d) bad debt expense.

Adjusted contribution margin is contribution margin adjusted to include or exclude (as applicable) the items described below under Adjusted Gross Margin and Adjusted Income (Loss) from Continuing Operations Before Taxes.

We believe that contribution margin and adjusted contribution margin are meaningful to investors, analysts, rating agencies, banks and other parties since our management uses these measures in evaluating the performance of our two business segments, retail energy and wholesale energy. In addition, we believe that these measures are useful to parties evaluating our segment performance and comparing our results to other companies that have similar business operations. The most directly comparable GAAP financial measure to contribution margin is operating income (loss).

*Gross Margin and Adjusted Gross Margin.* We use the non-GAAP financial measures gross margin and adjusted gross margin to analyze the results of operations of our business segments. We define gross margin as revenues less purchased power, fuel and cost of gas sold, and adjusted gross margin is gross margin adjusted to exclude the items below:

Changes in California-Related Receivables and Reserves. In the twelve months ended December 31, 2005, we excluded the impact of changes in receivables and reserves relating to energy sales in California from October 2000 through June 2001. Because of the unique and non-recurring nature of the transactions, market conditions and regulatory events that underlie the changes in receivables and reserves, our management believes that excluding this item (a) is useful to investors, analysts and others in facilitating their analysis of our results of operations from one period to another and (b) provides a more meaningful representation of our results of operations on an ongoing basis. For additional information, see note 12 to the consolidated financial statements in our Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2005.

Unrealized Gains/Losses on Energy Derivatives. In the three and twelve months ended December 31, 2005, we have excluded the impact of Unrealized Gains/Losses on Energy Derivatives as described below. We use derivative instruments to manage operational or market constraints, to increase the return on our generation assets and to execute our retail energy segment's supply procurement strategy. Historically we have also entered into transactions to hedge the economics of our wholesale operations. Certain derivative instruments receive mark-to-market accounting treatment, which requires us to record gains/losses related to future periods based on current changes in forward commodity prices. We refer to these gains and losses prior to settlement as unrealized gains/losses on energy derivatives. In certain cases, the related underlying transactions being hedged receive accrual accounting treatment, resulting in a mismatch of accounting treatments. Since the application of mark-to-market accounting has the effect of pulling forward into current periods non-cash gains/losses relating to future delivery periods, analysis of results of operations from one period to another can be difficult. Accordingly, our management believes that excluding these unrealized gains/losses (a) is useful to investors, analysts and others in facilitating their analysis of our results of operations from one period to another and (b) provides a more meaningful representation of our economic performance in the reporting period.

The most directly comparable GAAP financial measure to gross margin and adjusted gross margin is operating income (loss).

## Edgar Filing: RELIANT ENERGY INC - Form 8-K

*Adjusted Income (Loss) from Continuing Operation Before Taxes.* We use the non-GAAP financial measure adjusted income (loss) from continuing operations before taxes to evaluate our financial condition and results of operations on a consolidated basis. Adjusted income (loss) from continuing operations before taxes is income (loss) from continuing operations before taxes adjusted to exclude the items listed below. We also use this measure in communications with investors, analysts, rating agencies, banks and other parties. We believe that this measure is useful to these parties for the reasons set forth below.

Changes in California-Related Receivables and Reserves. See discussion above under Adjusted Gross Margin.

Unrealized Gains/Losses on Energy Derivatives. See discussion above under Adjusted Gross Margin.

Western States and Cornerstone Settlements. In the three and twelve months ended December 31, 2005, we excluded (a) the charge related to our settlement agreement with the states of California, Oregon and Washington, California's three largest investor-owned utilities and a number of other parties that resolves civil litigation and claims with respect to the California energy crisis of 2000 and 2001 and (b) the charge related to our settlement litigation regarding allegations of manipulation of NYMEX prices. Because the level of these charges is not representative of our ongoing business operations, our management believes that excluding these charges is useful in that it provides a more meaningful representation of our results of operations on an ongoing basis. For additional information, see note 12 to the consolidated financial statements in our Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2005.

Settlement of Shareholder Class Action Lawsuits. In the twelve months ended December 31, 2005, we excluded charges incurred in connection with the settlement of class action lawsuits against us for claims alleging violations of securities laws. Because the level of these charges is not representative of our ongoing business operations, our management believes that excluding these charges is useful in that it provides a more meaningful representation of our results of operations on an ongoing basis. For additional information, see note 12 to the consolidated financial statements in our Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2005.

California - Related Interest Income. See Changes in California-Related Receivables and Reserves above under Adjusted Gross Margin.

*Free Cash Flow.* We define free cash flow as operating cash flow from continuing operations (which is the most directly comparable GAAP financial measure to free cash flow) excluding changes in margin deposits less capital expenditures. Free cash flow may not be representative of the amount of residual cash flow that is available to us for discretionary expenditures, since it may not include deductions for all non-discretionary expenditures. Our management believes, however, that free cash flow is a useful measure in that it provides a representation of our cash level available to service debt on a normalized basis.

*EBITDA and Adjusted EBITDA.* We use the non-GAAP financial measures, earnings (loss) before interest, taxes, depreciation and amortization (EBITDA) and/or adjusted EBITDA. Adjusted EBITDA includes the adjustments identified above under Adjusted Income (Loss) from Continuing Operations Before Taxes and Adjusted Gross Margin. We believe that EBITDA and adjusted EBITDA provide a meaningful representation of our operating performance. In addition, many analysts and investors use EBITDA to evaluate financial performance. Due to the preliminary nature of the results presented in the February 8 Press Release, and in particular the absence of estimated income taxes, the most directly comparable GAAP financial measure to EBITDA and adjusted EBITDA is income (loss) from continuing operations before taxes.

*Open EBITDA.* Open EBITDA includes the adjustments identified above under Adjusted Gross Margin and Adjusted Income (Loss) from Continuing Operations Before Taxes and further includes the following adjustments:

Historical Wholesale Hedges. We exclude the effect of certain historical wholesale hedges that were entered into in order to hedge the economics of our wholesale operations. In light of our decision in February 2006 to substantially reduce new hedges of our generation, our management believes that it is useful to investors, analysts and others to show our results in the absence of these hedges because the impact of these historical hedges on our financial results is not a function of the operating performance of our generation assets, and excluding the impact helps isolate the operating performance of our generation assets under prevailing market conditions.

Gains on Sales of Emission Allowances. As part of our effort to operate our business efficiently and maximize the use of our assets, we have determined that, since our generating assets dispatch based on market prices, we should maintain an emission allowances inventory that corresponds with forward power sales and that excess emission allowances inventory will be monetized. Our management believes that excluding the gains from such sales is useful because these gains are not directly tied to the operating performance of our generation assets, and excluding them helps to isolate the operating performance of our generation assets under prevailing market conditions.



Gains or Losses on the Sales of Assets. We exclude gains or losses on asset sales because our management believes that these gains or losses are not directly tied to the operating performance of our generation assets, and excluding them helps to isolate the operating performance of our generation assets under prevailing market conditions.

Gains or Losses on the Sales of Equity Method Investments. We exclude gains or losses on sales of investments because our management believes that these gains or losses are not directly tied to the operating performance of our generation assets, and excluding them helps to isolate the operating performance of our generation assets under prevailing market conditions.

Our management believes that Open EBITDA provides a meaningful representation of the earnings power of the company as it excludes the impact of historical wholesale hedging activity, gains on the sales of emission allowances, gains or losses on the sales of assets and gains or losses on the sales of equity method investments. Due to the preliminary nature of the results presented in the February 8 Press Release, and in particular the absence of estimated income taxes, the most directly comparable GAAP financial measure to Open EBITDA is income (loss) from continuing operations before taxes.

*Open Wholesale Gross Margin.* We use the non-GAAP financial measure open wholesale gross margin to analyze the results of operations of our wholesale energy segment. Open Wholesale Gross Margin includes the adjustments identified above under Adjusted Gross Margin and also includes the following adjustment:

Historical Wholesale Hedges. See Historical Wholesale Hedges above under Open EBITDA.

***Additional Non-GAAP Financial Measures.***

In the financial tables attached to the February 8 Press Release, we also show the following measures on an adjusted basis, with the items excluded noted: General and Administrative (settlement of shareholder class action lawsuits) and Interest Income (California-related interest income). We believe that adjusting each of these measures provides a meaningful representation of our ongoing operating performance, which we use to communicate with investors, analysts and others about earnings outlook and results. For additional information about these items, see our discussion elsewhere in this Form 8-K.

**Item 5.02. Departure of Directors or Principal Officers; Election of Directors; Appointment of Principal Officers.**

On February 8, 2006, we announced that our Board of Directors had, effective February 7, 2006, elected Mr. Brian Landrum to the position of Executive Vice President, Operations. In his new role, Mr. Landrum will lead the planning for our four operational functions: retail marketing, ERCOT supply, plant operations and commercial operations. Mr. Landrum will report directly to Mr. Joel Staff, our Chairman and Chief Executive Officer.

Prior to his promotion, Mr. Landrum served as our Senior Vice President, Commercial and Retail Operations, IT since February 2005. He was Senior Vice President, Customer Operations and Information Technology from January 2004 to February 2005; President, Reliant Energy Retail Services from June 2003 to January 2004; Senior Vice President, Retail Operations from August 2001 to May 2003; and Vice President, Internet and E-Business from November 1999 to August 2001.

Under our current guidelines for severance and change of control benefits, Mr. Landrum is entitled to severance and change in control payments of 1.5 times the sum of his annual base salary and cash bonus amount and 3 times the sum of his annual base salary and cash bonus amount, respectively. As previously disclosed, these guidelines will be incorporated into a new change of control agreement and a severance plan, which will be filed as exhibits to our Annual Report on Form 10-K for the year ended December 31, 2005. See our Current Report on Form 8-K filed on November 22, 2005, for further information. Reference is made to Item 1.01 of this report for information regarding Mr. Landrum's compensation arrangements.

**Item 9.01. Financial Statements and Exhibit.**

(c) We furnish the following exhibit:

99.1 Press Release dated February 8, 2006

**CAUTIONARY STATEMENTS REGARDING FORWARD-LOOKING INFORMATION**

The February 8 Press Release contains forward-looking statements. Forward-looking statements are statements that contain projections, estimates or assumptions about our revenues, income and other financial items, our plans for the future, future economic performance, transactions and dispositions and financings related thereto. Forward-looking statements relate to future events and anticipated revenues, earnings, business strategies, competitive position or other aspects of our operations or operating results. In many cases you can identify forward-looking statements by terminology such as anticipate, estimate, believe, continue, could, intend, may, plan, potential, possible, will, expect, objective, projection, forecast, goal, guidance, outlook, effort, target and other similar words. However, the absence of such words does not mean that the statements are not forward-looking.

We have based our forward-looking statements on management's beliefs and assumptions based on information available to management at the time the statements are made. Actual results may differ materially from those expressed or implied by forward-looking statements as a result of many factors or events, including legislative and regulatory developments, the outcome of pending lawsuits, governmental proceedings and investigations, the effects of competition, financial market conditions, access to capital, the timing and extent of changes in commodity prices and interest rates, weather conditions, changes in our business plan and other factors we discuss in our other filings with the Securities and Exchange Commission, including the following:

Fluctuations in commodity prices, including any future increases in natural gas prices;

The impact of competition;

Market usage adjustments resulting from revisions to prior period estimates related to customer usage in the Electric Reliability Council of Texas (ERCOT) region and the PJM (Pennsylvania, New Jersey and Maryland) Market and supply costs;

Weather conditions;

Changes in wholesale market conditions;

Impact of price-to-beat tariff filings and regulatory developments;

Plant availability, including limitations on plant capacity, which could restrict our ability to capitalize on increased demand for electricity; and

Changes in operating and maintenance expenses.

For additional information regarding these risks and uncertainties, see our other filings with the Securities and Exchange Commission, including the discussions under Management's Discussion and Analysis of Financial Condition and Results of Operation in our Quarterly Reports on Form 10-Q for the three months ended March 31, 2005, June 30, 2005 and September 30, 2005 as well as our Annual Report on Form 10-K for the year ended December 31, 2004.

Each forward-looking statement speaks only as of the date of the particular statement and we undertake no obligation to update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

The information in Item 2.02 and Exhibit 99.1 of this Form 8-K is being furnished, not filed. Accordingly, the information will not be incorporated by reference into any registration statement filed by Reliant Energy under the Securities Act of 1933, as amended, unless specifically identified as being incorporated by reference therein.

**SIGNATURE**

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.

**RELIANT ENERGY, INC.**  
(Registrant)

Date: February 8, 2006

By: /s/ Thomas C. Livengood  
Thomas C. Livengood  
*Senior Vice President and Controller*

**EXHIBIT INDEX**

| <b>Exhibit<br/>Number</b> | <b>Exhibit Description</b>           |
|---------------------------|--------------------------------------|
| 99.1                      | Press Release dated February 8, 2006 |

---