TEXAS GENCO HOLDINGS INC
Form 10-Q
November 09, 2004

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

FORM 10-Q

(Mark One)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2004

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE TRANSITION PERIOD FROM __________ TO ______________.

Commission file number 1-31449

TEXAS GENCO HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

TEXAS	76-0695
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Iden

1111 LOUISIANA HOUSTON, TEXAS 77002 (Address and zip code of principal executive offices)	(71 (Registrant's telephone numbe

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Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes [X] No [ ]

As of November 1, 2004, Texas Genco Holdings, Inc., (Texas Genco) had 80,000,000 shares of common stock outstanding, including 64,764,240 shares which were held by Utility Holding, LLC, a wholly owned subsidiary of CenterPoint Energy, Inc.

TEXAS GENCO HOLDINGS, INC.
QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTER ENDED SEPTEMBER 30, 2004

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

From time to time, we make statements concerning our expectations, beliefs, plans, objectives, goals, strategies, future events or performance and underlying assumptions and other statements that are not historical facts. These statements are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Actual results may differ materially from those expressed or implied by these statements. You can generally identify our forward-looking statements by the words "anticipate," "believe," "continue," "could," "estimate," "expect," "forecast," "goal," "intend," "may," "objective," "plan," "potential," "predict," "projection," "should," "will," or other similar words.

We have based our forward-looking statements on our management's beliefs and assumptions based on information available to our management at the time the statements are made. We caution you that assumptions, beliefs, expectations, intentions and projections about future events may and often do vary materially from actual results. Therefore, we cannot assure you that actual results will not differ materially from those expressed or implied by our forward-looking statements.

The following are some of the factors that could cause actual results to differ materially from those expressed or implied in our forward-looking statements:

- state and federal legislative and regulatory actions or developments, including deregulation, re-regulation and restructuring of the Electric Reliability Council of Texas (ERCOT) market; and changes in, or application of, environmental or other laws or regulations to which we are subject;

- various risks associated with operating our power generation facilities including, but not limited to, breakdowns or failures of equipment or processes, disruptions in the transmission of

electricity, fuel supply interruptions, labor disputes, operator error, and catastrophic events such as fires, hurricanes, explosions, floods or terrorist attacks;

- unanticipated expenses incurred as part of our efforts to satisfy our forward sales obligations;
- the timing and extent of changes in commodity prices, particularly natural gas;
- the effects of competition, including the extent and timing of the entry of additional competitors in the ERCOT market;
- the results of our capacity auctions;
- weather variations and other natural phenomena;
- commercial bank and financial market conditions, and our access to capital and credit;
- non-payment of our services due to financial distress of our customers, including Reliant Energy, Inc. (formerly named Reliant Resources, Inc.) (RRI);
- the successful consummation and timing of the sale of the company to GC Power Acquisition LLC (GC Power Acquisition) pursuant to the definitive agreement described under "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Recent Events -- Definitive Agreement for the Sale of the Company" in Item 2 of this Quarterly Report on Form 10-Q;
- nonperformance by the counterparty to the master power purchase and sale agreement our subsidiary, Texas Genco, LP, entered into in connection with the execution of the definitive agreement for the sale of the company to GC Power Acquisition; and
- other factors we discuss in "Risk Factors" beginning on page 18 of the Texas Genco Holdings, Inc. Annual Report on Form 10-K for the year ended December 31, 2003.

Additional risk factors are described in other documents we file with the Securities and Exchange Commission.

You should not place undue reliance on forward-looking statements. Each forward-looking statement speaks only as of the date of the particular statement.

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

TEXAS GENCO HOLDINGS, INC.
STATEMENTS OF CONSOLIDATED OPERATIONS
(THOUSANDS OF DOLLARS, EXCEPT PER SHARE AMOUNTS)
(UNAUDITED)

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS
	2003	2004	2003
REVENUES	$ 657,363	$ 637,885	$ 1,594,4
EXPENSES:			
Fuel costs	365,913	315,644	923,2
Purchased power	20,259	17,506	55,2
Operation and maintenance	100,353	118,914	311,0
Depreciation and amortization	40,778	4,355	119,2
Write-down of assets	--	649,000	
Taxes other than income taxes	5,084	8,721	27,8
Total	532,387	1,114,140	1,436,5
OPERATING INCOME (LOSS)	124,976	(476,255)	157,9
OTHER INCOME	489	908	1,7
INTEREST EXPENSE, NET	(1,298)	--	(6,9
INCOME (LOSS) BEFORE INCOME TAXES AND CUMULATIVE EFFECT OF ACCOUNTING CHANGE	124,167	(475,347)	152,7
INCOME TAX BENEFIT (EXPENSE)	(41,761)	164,088	(47,9
INCOME (LOSS) BEFORE CUMULATIVE EFFECT OF ACCOUNTING CHANGE	82,406	(311,259)	104,8
CUMULATIVE EFFECT OF ACCOUNTING CHANGE, NET OF TAX	--	--	98,9
NET INCOME (LOSS)	$ 82,406	$ (311,259)	$ 203,7
BASIC AND DILUTED EARNINGS PER SHARE:			
Income (Loss) Before Cumulative Effect of Accounting Change	$ 1.03	$ (3.89)	$ 1.
Cumulative Effect of Accounting Change, net of tax	--	--	1.
Net Income (Loss)	$ 1.03	$ (3.89)	$ 2.

See Notes to the Company's Interim Financial Statements

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TEXAS GENCO HOLDINGS, INC.
CONSOLIDATED BALANCE SHEETS
(THOUSANDS OF DOLLARS)
(UNAUDITED)

ASSETS

	DECEMBER 2003

CURRENT ASSETS:	
Cash	$
Short-term investments	44,
Customer accounts receivable	78,
Accounts receivable, other	3,
Materials and supplies	92,
Fuel stock	77,
Deferred tax asset	
Prepaid expenses	2,
Other current assets	
Assets held for sale	3,654,
Total current assets	3,952,
PROPERTY, PLANT AND EQUIPMENT:	
Property, plant and equipment	3,027,
Less accumulated depreciation and amortization	(2,555,
Property, plant and equipment, net	471,
OTHER ASSETS:	
Nuclear decommissioning trust	189,
Other	26,
Total other assets	215,
TOTAL ASSETS	$ 4,639,

See Notes to the Company's Interim Financial Statements

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TEXAS GENCO HOLDINGS, INC.
CONSOLIDATED BALANCE SHEETS - (CONTINUED)
(THOUSANDS OF DOLLARS)
(UNAUDITED)

LIABILITIES AND SHAREHOLDERS' EQUITY

	DECEMBER 2003
CURRENT LIABILITIES:	
Accounts payable - affiliated companies, net	$ 7,
Accounts payable, fuel	68,
Accounts payable, other	40,
Taxes and interest accrued	107,
Deferred capacity auction revenue	86,
Non-trading derivative liabilities	
Other	17,
Total current liabilities	328,
OTHER LIABILITIES:	
Accumulated deferred income taxes, net	844,

Unamortized investment tax credit	150,
Nuclear decommissioning reserve	187,
Non-trading derivative liabilities	
Benefit obligations	18,
Accrued reclamation costs	6,
Other	70,
Total other liabilities	1,277,
COMMITMENTS AND CONTINGENCIES (NOTE 9)	
SHAREHOLDERS' EQUITY:	
Common stock (80,000,000 shares outstanding at December 31, 2003 and September 30, 2004, respectively)	
Additional paid-in capital	2,917,
Retained earnings (deficit)	115,
Accumulated other comprehensive loss	
Total shareholders' equity	3,033,
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 4,639,

See Notes to the Company's Interim Financial Statements

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TEXAS GENCO HOLDINGS, INC.
STATEMENTS OF CONSOLIDATED CASH FLOWS
(THOUSANDS OF DOLLARS)
(UNAUDITED)

	NINE MONTHS ENDED SEPTEMBER 30,	
	2003	2004
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$ 203,727	$ (170,251)
Cumulative effect of accounting change	(98,910)	--
Income (loss) before cumulative effect of accounting change	104,817	(170,251)
Adjustments to reconcile income (loss) before cumulative effect of accounting change to net cash provided by operating activities:		
Depreciation and amortization	119,248	85,331
Fuel-related amortization	15,920	20,375
Amortization of deferred financing costs	--	1,651
Deferred income taxes	(15,202)	(213,332)
Investment tax credit	(9,109)	(8,653)
Write-down of assets	--	649,000
Changes in other assets and liabilities:		
Accounts receivable	(40,439)	(16,607)
Taxes receivable	4,368	--
Inventory	(16,135)	13,395
Accounts payable	28,918	24,522
Accounts payable, affiliate	(17,543)	(1,626)
Taxes and interest accrued	53,183	9,919

Accrued reclamation costs	3,992	(1,511)
Benefit obligations	1,587	20,612
Deferred revenue from capacity auctions	6,838	3,120
Other current assets	2,453	(10,026)
Other current liabilities	664	(1,790)
Other long-term assets	(1,839)	2,291
Other long-term liabilities	(7,478)	(6,919)
Net cash provided by operating activities	234,243	399,501
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures and other	(117,181)	(45,751)
Net cash used in investing activities	(117,181)	(45,751)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payment of common stock dividends	(60,000)	(60,000)
Debt issuance costs	--	(1,252)
Decrease in short-term notes payable, affiliate	(56,831)	--
Decrease in long-term notes payable, affiliate	(424)	--
Net cash used in financing activities	(117,255)	(61,252)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(193)	292,498
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	578	44,558
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 385	$ 337,056
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash Payments:		
Interest	$ 7,705	$ 885
Income taxes	--	52,732

See Notes to the Company's Interim Financial Statements

TEXAS GENCO HOLDINGS, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(1) BACKGROUND AND BASIS OF PRESENTATION

General. Included in this Quarterly Report on Form 10-Q (Form 10-Q) of Texas Genco Holdings, Inc. (Texas Genco or the Company) are the Company's consolidated interim financial statements and notes (Interim Financial Statements) including its wholly owned subsidiaries. The Interim Financial Statements are unaudited, omit certain financial statement disclosures and should be read with the Annual Report on Form 10-K of Texas Genco for the year ended December 31, 2003 (Texas Genco Form 10-K).

Background. The Company is an 81% owned subsidiary of CenterPoint Energy, Inc. (CenterPoint Energy). CenterPoint Energy is subject to regulation by the Securities and Exchange Commission (SEC) as a registered public utility holding company under the Public Utility Holding Company Act of 1935, as amended (1935 Act). Texas Genco, LP (Genco LP), a wholly owned subsidiary of the Company that owns and operates the Company's electric generating plants, is an exempt wholesale generator pursuant to an order of the Federal Energy Regulatory Commission (FERC). As a result, Genco LP is exempt from all provisions of the 1935 Act so long as it remains an exempt wholesale generator, and the Company is

no longer a public utility holding company under the 1935 Act. SEC approval would be required, however, for CenterPoint Energy to issue and sell securities for the purpose of funding the Company's operations, or for CenterPoint Energy to guarantee the Company's securities. Also, SEC policy precludes the Company from borrowing from CenterPoint Energy's utility subsidiaries. On July 21, 2004, the Company entered into a definitive transaction agreement pursuant to which it has agreed to be acquired in a multistep transaction by GC Power Acquisition LLC (GC Power Acquisition), a newly formed entity owned in equal parts by investment funds affiliated with The Blackstone Group, Hellman & Friedman LLC, Kohlberg, Kravis Roberts & Co. L.P. and Texas Pacific Group, for approximately $3.65 billion in cash. For further discussion, see Note 2.

Basis of Presentation. The Interim Financial Statements include the operations of Texas Genco Holdings, Inc. and its subsidiaries, which manage and operate the Company's electric generation operations.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The Company's Interim Financial Statements reflect all normal recurring adjustments that are, in the opinion of management, necessary to present fairly the financial position and results of operations for the respective periods. Amounts reported in the Company's Statements of Consolidated Operations are not necessarily indicative of amounts expected for a full-year period due to the effects of, among other things, (a) seasonal variations in energy consumption, (b) timing of maintenance and other expenditures and (c) acquisitions and dispositions of assets and other interests.

Note 2(f) (Long-Lived Assets and Intangibles) and Note 8 (Commitments and Contingencies) to the consolidated annual financial statements included in the Texas Genco Form 10-K relate to certain contingencies. These notes, as updated herein, are incorporated herein by reference.

For information regarding certain environmental matters and legal proceedings, see Note 9 to the Interim Financial Statements.

(2) DEFINITIVE AGREEMENT FOR THE SALE OF THE COMPANY

On July 21, 2004, the Company entered into a definitive transaction agreement pursuant to which it has agreed to be acquired in a multistep transaction by GC Power Acquisition for approximately $3.65 billion in cash. The

transaction will be accomplished in two steps. In the first step, expected to be completed in the fourth quarter of 2004, the Company will purchase the approximately 19% of its shares owned by the public (other than shares held by shareholders who validly perfect their dissenters' rights under Texas law) in a cash-out merger at a price of $47.00 per share, without interest and less any applicable withholding taxes (Public Company Merger). In connection with the anticipated Public Company Merger, the Company has filed with the SEC a Rule 13e-3 transaction statement and a preliminary information statement on Schedule 14C containing information with respect to the transactions contemplated by the definitive transaction agreement, including the Public Company Merger, and related matters. Following the Public Company Merger, a subsidiary of the Company that will own the Company's coal, lignite and gas-fired generation plants will merge with a subsidiary of GC Power Acquisition. The closing of the

first step of the transaction is subject to several conditions, including the mailing of a definitive information statement to our shareholders at least 20 days prior to the closing of the Public Company Merger, the receipt of debt financing under the financing commitments described below, the expiration or termination of any applicable waiting period under the antitrust laws (including the Hart Scott Rodino Antitrust Improvement Act of 1976), which occurred on September 17, 2004, and FERC's certification of the entity that will own Texas Genco's coal, lignite and gas-fired generation plants as an "exempt wholesale generator," which occurred on September 24, 2004. The definitive information statement will be mailed to the Company's shareholders of record as of October 21, 2004. The Company's shareholders as of the effective date of the Public Company Merger will have the right to either receive the cash consideration for their shares described above or exercise dissenters' rights in connection with the Public Company Merger by properly complying with the requirements of the Texas Business Corporation Act. Within 10 days after the effectiveness of the Public Company Merger, the Company must mail to all of its shareholders written notice of the effectiveness of the Public Company Merger and of their right to dissent from that transaction within 20 days after the date of the Company's mailing of the notice.

In the second step of the transaction, expected to take place in the first half of 2005 following receipt of approval by the Nuclear Regulatory Commission (NRC), for which the application was filed on October 18, 2004, the Company, the principal remaining asset of which, at that time, will be the Company's interest in the South Texas Project Electric Generating Station (South Texas Project), will merge with another subsidiary of GC Power Acquisition.

GC Power Acquisition has entered into a commitment letter with financing sources, including Goldman Sachs Credit Partners, L.P., providing for up to $2.5 billion in the aggregate in debt financing for the transaction and a separate overnight loan of $717 million to the Company to fund the Public Company merger in the first step of the transaction, each subject to customary closing conditions. This overnight loan is expected to be repaid with the proceeds of the merger of a subsidiary of the Company that will own the Company's coal, lignite and gas-fired generation plants with a subsidiary of GC Power Acquisition. In addition, GC Power Acquisition's sponsor firms have committed upon closing of the transaction to provide up to $1.08 billion in the aggregate in equity funding for the transaction.

The transaction has been approved by the board of directors of the Company acting upon the unanimous recommendation of a special committee composed of independent members of the Company's board of directors. Utility Holding, LLC (Utility Holding), a wholly owned subsidiary of CenterPoint Energy, acting in its capacity as the holder of approximately 81% of Texas Genco's outstanding shares of common stock, has executed a written consent irrevocably approving the transaction agreement and the transactions it contemplates, including the Public Company Merger. Because Utility Holding owns shares of Texas Genco's common stock representing greater than two-thirds of the votes required for approval of the transactions under Texas law, no further vote of Texas Genco's shareholders is required or contemplated.

In connection with the transaction, a subsidiary of the Company, Genco LP, entered into a master power purchase and sale agreement with a member of the Goldman Sachs group. Under that agreement, Genco LP has sold forward a substantial quantity of its available base-load capacity through 2008 and pledged $175 million of its first mortgage bonds as collateral for its obligations. Genco LP's obligations under the power purchase agreement will continue regardless of whether the transaction is completed.

On July 23, 2004, two plaintiffs filed substantially identical lawsuits in Harris County, Texas state district court. The suits, purportedly brought on behalf of holders of the Company's common stock, name the Company and each of

its directors as defendants. Both plaintiffs allege, among other things, self-dealing and breach of fiduciary duty by the defendants in entering into the transaction agreement. As part of their allegations of self-dealing, both plaintiffs claim that the Company's board of directors is controlled by CenterPoint Energy, that the defendants improperly concealed the Company's results of operations for the second quarter of 2004 until after the transaction agreement was announced, and that in order to aid CenterPoint Energy, the Company's board only searched for acquirers who would offer all-cash consideration. Among other relief, the plaintiffs seek to enjoin the

transaction or, alternatively, rescind the transaction to the extent already implemented. In August 2004, the cases were consolidated in state district court in Harris County, Texas. The Company intends to vigorously defend against the consolidated suits.

In the third quarter of 2004, the Company recorded an after-tax impairment of approximately $426 million related to the write-down of coal, lignite and gas-fired generation assets in connection with the first step of the sale transaction. These assets have been classified in the Consolidated Balance Sheets as "held for sale."

(3) PURCHASE OF ADDITIONAL SOUTH TEXAS PROJECT INTEREST

On September 3, 2004, Genco LP signed an agreement to purchase a portion of AEP Texas Central Company's (AEP) 25.2% interest in the South Texas Project for approximately $174 million. Once the purchase is complete, Genco LP will own an additional 13.2% interest in the South Texas Project for a total of 44%, or approximately 1,100 MW. This purchase agreement was entered into pursuant to Genco LP's right of first refusal to purchase this interest triggered by AEP's previously announced agreement to sell this interest to a third party. In addition to AEP's ownership interest and Genco LP's current 30.8% ownership, the 2,500 MW nuclear plant is currently 28%-owned by City Public Service of San Antonio and 16%-owned by Austin Energy. City Public Service of San Antonio is purchasing AEP's remaining 12% ownership interest under its right of first refusal. The sale is subject to certain regulatory approvals, including filing under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, and action by the NRC, the FERC, and the SEC. The Company expects to fund the purchase of its share of AEP's interest, including reimbursements of draws under letters of credit discussed in Note 7, with existing cash balances and cash expected to be generated through operations. The Company expects to complete this transaction by the end of the first quarter of 2005.

(4) NEW ACCOUNTING PRONOUNCEMENTS

In January 2003, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. (FIN) 46 "Consolidation of Variable Interest Entities, an Interpretation of Accounting Research Bulletin No. 51" (FIN 46). FIN 46 requires certain variable interest entities to be consolidated by the primary beneficiary of the entity if the equity investors in the entity do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. On December 24, 2003, the FASB issued a revision to FIN 46 (FIN 46-R). For special-purpose entities (SPE's) created before February 1, 2003, the Company applied the provisions of FIN 46 or FIN 46-R as of December 31, 2003. The revised FIN 46-R is effective for all other entities for financial periods ending after March 15, 2004. The Company evaluated two purchase power contracts with qualifying facilities as defined in the Public Utility Regulatory Policies Act of 1978 and concluded that it was not required to consolidate the entities that own the qualifying

facilities.

On December 23, 2003, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 132 (Revised 2003), "Employer's Disclosures about Pensions and Other Postretirement Benefits" (SFAS No. 132 (R)) which increases the existing disclosure requirements by requiring more details about pension plan assets, benefit obligations, cash flows, benefit costs and related information. Companies are required to segregate plan assets by category, such as debt, equity and real estate, and to provide certain expected rates of return and other informational disclosures. SFAS No. 132 (R) also requires companies to disclose various elements of pension and postretirement benefit costs in interim-period financial statements for quarters beginning after December 15, 2003. The Company has adopted the disclosure requirements of SFAS No. 132 (R) in Note 10 to these Interim Financial Statements.

On May 19, 2004, the FASB issued a FASB Staff Position (FSP) addressing the appropriate accounting and disclosure requirements for companies that sponsor a postretirement health care plan that provides prescription drug benefits. The new guidance from the FASB was deemed necessary as a result of the 2003 Medicare prescription law which includes a federal subsidy for qualifying companies. FSP FAS 106-2, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (FAS 106-2)," requires that the effects of the federal subsidy be considered an actuarial gain and treated like similar gains and losses and requires certain disclosures for employers that sponsor postretirement health care plans that provide prescription drug benefits. The FASB's related existing guidance, FSP FAS 106-1, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003," will be superseded upon the effective date of FAS 106-2. The effective date of the new FSP is the first interim or annual period beginning after June 15, 2004, except for certain nonpublic entities which have until fiscal years beginning

after December 15, 2004. The adoption of FAS 106-2 did not have a material effect on the Company's results of operations or financial condition.

(5) DERIVATIVE FINANCIAL INSTRUMENTS

In connection with the definitive agreement for the sale of the Company entered into on July 21, 2004, Genco LP entered into a master power purchase and sale agreement with a member of the Goldman Sachs group. Under that agreement, Genco LP has sold forward a substantial quantity of its available base-load capacity through 2008 and pledged $175 million of its first mortgage bonds as collateral for its obligations. Genco LP's obligations under the power purchase agreement will continue regardless of whether the sale transaction is completed. The Company has designated the master power purchase and sale agreement as a cash flow hedge of the forecasted sale of base-load capacity through 2008. During the three months ended September 30, 2004, no hedge ineffectiveness was recognized in earnings from derivatives that qualify for and are designated as cash flow hedges. As of September 30, 2004, the Company expects $5 million in accumulated other comprehensive income to be reclassified into net income during the next twelve months.

(6) COMPREHENSIVE INCOME (LOSS)

The following table summarizes the components of total comprehensive income (loss):

	THREE MONTHS ENDED SEPTEMBER 30, 2004	NINE MONTHS ENDED SEPTEMBER 30, 2004
	(IN MILLIONS)	
Net loss	$ (311)	$ (170)
Other comprehensive loss:		
Minimum benefits liability	(17)	(17)
Net deferred loss from cash flow hedges	(76)	(76)
Other comprehensive loss	(93)	(93)
Comprehensive loss	$ (404)	$ (263)

(7) SHORT-TERM BORROWINGS

In September 2004, Genco LP amended its $75 million senior secured revolving credit facility to increase the facility to $250 million. The facility is secured by Genco LP's first mortgage bonds. The revolving credit facility terminates on the earlier of March 2, 2005 or the date of the consummation of the sale of Texas Genco's coal, lignite and gas-fired generation assets to GC Power Acquisition. As of September 30, 2004, there were no borrowings outstanding under the revolving credit facility. As of September 30, 2004, letters of credit aggregating $182 million were issued under the facility in favor of AEP, and are expected to be drawn upon in the first quarter of 2005 to pay the purchase price of an additional interest in the South Texas Project as further discussed in Note 3. The expiration date of the letters of credit is August 29, 2005. Under the terms of the credit facility, the letters of credit will be cash collateralized at 105% of their face amount upon the Company's sale of its coal, lignite and gas-fired generation assets to GC Power Acquisition. The Company expects to fund the cash collateral with a portion of the net proceeds of the sale.

(8) RELATED PARTY TRANSACTIONS AND MAJOR CUSTOMERS

As of December 31, 2003 and September 30, 2004, the Company had net accounts payable to affiliates of $8 million and $6 million, respectively.

During the three months ended September 30, 2003 and 2004, the sales and services by the Company to Reliant Energy, Inc. (formerly named Reliant Resources, Inc.) (RRI) and its subsidiaries totaled $496 million and $423 million, respectively. During the nine months ended September 30, 2003 and 2004, the sales and services by the Company to RRI and its subsidiaries totaled $1.2 billion and $1 billion, respectively. During the three months and nine months ended September 30, 2003 and 2004, there were no sales and services by the Company to CenterPoint Energy and its affiliates. During the three months ended September 30, 2003 and 2004, the sales and services by the Company to another major customer totaled $67 million and $95 million, respectively. During the nine months ended September 30, 2003 and 2004, the sales and services by the Company to that customer totaled $160 million and $285 million, respectively.

During the three months ended September 30, 2003 and 2004, purchases of natural gas by the Company from CenterPoint Energy and its affiliates were $14 million and $2 million, respectively. During the nine months ended September 30, 2003 and 2004, purchases of natural gas by the Company from CenterPoint Energy and its affiliates were $23 million and $18 million, respectively.

CenterPoint Energy provides some corporate services to the Company. The costs of services have been directly charged to the Company using methods that management believes are reasonable. These methods include negotiated usage rates, dedicated asset assignment, and proportionate corporate formulas based on assets, operating expenses and employees. These charges are not necessarily indicative of what would have been incurred had the Company not been an affiliate. Amounts charged to the Company for these services were $7 million and $8 million for the three months ended September 30, 2003 and 2004, respectively, and are included primarily in operation and maintenance expenses. Amounts charged to the Company for these services were $24 million and $20 million for the nine months ended September 30, 2003 and 2004, respectively, and are included primarily in operation and maintenance expenses.

(9) COMMITMENTS AND CONTINGENCIES

Clean Air Standards. The 1999 Texas Electric Choice Law (Texas electric restructuring law) and regulations adopted by the Texas Commission on Environmental Quality (TCEQ) in 2001 require substantial reductions in emission of oxides of nitrogen (NOx) from electric generating units. The Company is currently installing cost-effective controls at its generating plants to comply with these requirements. Through September 30, 2004, the Company has invested $689 million for NOx emission control, and plans to make additional expenditures of up to approximately $106 million during the remainder of 2004 through 2007. Further revisions to these NOx requirements may result from the EPA's ongoing review of these TCEQ rules and from the TCEQ's future rules, expected in 2007, implementing the more stringent federal eight-hour ozone standard.

Asbestos. The Company has been named, along with numerous others, as a defendant in several lawsuits filed by a large number of individuals who claim injury due to exposure to asbestos while working at sites along the Texas Gulf Coast. Most of these claimants have been workers who participated in construction of various industrial facilities, including power plants, and some of the claimants have worked at locations owned by the Company. The Company anticipates that additional claims like those received may be asserted in the future and intends to continue vigorously contesting claims which it does not consider to have merit.

Texas Antitrust Action. In July 2003, Texas Commercial Energy filed in federal court in Corpus Christi, Texas a lawsuit against Reliant Energy, Incorporated (Reliant Energy), CenterPoint Energy and CenterPoint Energy Houston Electric, LLC (CenterPoint Houston), as successors to Reliant Energy, Genco LP, RRI, Reliant Electric Solutions, LLC, several other RRI subsidiaries and a number of other participants in the Electric Reliability Council of Texas (ERCOT) power market. The plaintiff, a retail electricity provider in the Texas market served by ERCOT, alleged that the defendants conspired to illegally fix and artificially increase the price of electricity in violation of state and federal antitrust laws and committed fraud and negligent misrepresentation. The lawsuit sought damages in excess of $500 million, exemplary damages, treble damages, interest, costs of suit and attorneys' fees. The plaintiff's principal allegations had previously been investigated by the Texas Utility Commission and found to be without merit. In June 2004, the federal court dismissed the plaintiff's claims and in July 2004, the plaintiff filed a notice of appeal. The Company intends to contest the appeal. The ultimate outcome of this matter cannot be predicted at this time.

Nuclear Insurance. The Company and the other owners of the South Texas Project maintain nuclear property and nuclear liability insurance coverage as required by law and periodically review available limits and coverage for additional protection. The owners of the South Texas Project currently maintain $2.75 billion in property damage insurance coverage, which is above the legally required minimum, but is less than the total amount of insurance currently available for such losses.

Under the Price Anderson Act, the maximum liability to the public of owners of nuclear power plants was $10.8 billion as of September 30, 2004. Owners are required under the Price Anderson Act to insure their liability for nuclear incidents and protective evacuations. The Company and the other owners currently maintain the required nuclear liability insurance and participate in the industry retrospective rating plan under which the owners of the

South Texas Project are subject to maximum retrospective assessments in the aggregate per incident of up to $100.6 million per reactor. The owners are jointly and severally liable at a rate not to exceed $10 million per reactor per year per incident.

There can be no assurance that all potential losses or liabilities associated with the South Texas Project will be insurable, or that the amount of insurance will be sufficient to cover them. Any substantial losses not covered by insurance would have a material effect on the Company's financial condition, results of operations and cash flows.

Nuclear Decommissioning. CenterPoint Houston, as collection agent for the nuclear decommissioning charge assessed on its transmission and distribution customers, contributed $2.9 million in 2003 to trusts established to fund the Company's share of the decommissioning costs for the South Texas Project, and expects to contribute $2.9 million in 2004. There are various investment restrictions imposed upon the Company by the Public Utility Commission of Texas and NRC relating to the Company's nuclear decommissioning trusts. The Company and CenterPoint Energy have each appointed two members to the Nuclear Decommissioning Trust Investment Committee which establishes the investment policy of the trusts and oversees the investment of the trusts' assets. The securities held by the trusts for decommissioning costs had an estimated fair value of $200 million as of September 30, 2004, of which approximately 37% were fixed-rate debt securities and the remaining 63% were equity securities. In May 2004, an outside consultant estimated the Company's portion of decommissioning costs to be approximately $456 million. While the funding levels currently exceed minimum NRC requirements, no assurance can be given that the amounts held in trust will be adequate to cover the actual decommissioning costs of the South Texas Project. Such costs may vary because of changes in the assumed date of decommissioning and changes in regulatory requirements, technology and costs of labor, materials and equipment. Pursuant to the Texas electric restructuring law, costs associated with nuclear decommissioning that have not been recovered as of January 1, 2002, will continue to be subject to cost-of-service rate regulation and will be charged to transmission and distribution customers of CenterPoint Houston or its successor.

Joint Operating Agreement with City of San Antonio. The Company has a joint operating agreement with the City Public Service Board of San Antonio to share savings from the joint dispatching of each party's generating assets. Dispatching the two generating systems jointly results in savings of fuel and related expenses due to a more efficient utilization of each party's lowest cost resources. The two parties currently share equally the savings resulting from joint dispatch. The current agreement with CPS expires in 2009 and can be terminated by either party at any time with 90 days' notice.

(10) EMPLOYEE BENEFIT PLANS

(a) Pension.

For the period January 1 through August 31, 2004, the Company's employees participated in CenterPoint Energy's pension plan. However, effective September 1, 2004, the Company established a stand-alone pension plan for substantially all employees of Texas Genco. As of the establishment of the new plan, Texas Genco received its allocation of net pension obligations from CenterPoint Energy. The funded status of the plan is as follows as of September 30, 2004 (in millions):

RECONCILIATION OF FUNDED STATUS	
Projected benefit obligation	$ (148)
Plan assets	61
Funded status	(87)
Unrecognized prior service cost	(11)
Unrecognized net loss	51
Net amount recognized	$ (47)
AMOUNTS RECOGNIZED IN BALANCE SHEET	
Benefit obligations	$ (68)
Accumulated other comprehensive income	21
Net amount recognized	$ (47)
ACTUARIAL ASSUMPTIONS	
Discount rate	6.25%
Expected return on plan assets	9.00%
Rate of increase in compensation levels	4.10%
ADDITIONAL INFORMATION	
Accumulated benefit obligation	$ 129
Change in minimum liability adjustment included in other comprehensive income	21
Measurement date used to determine plan obligations and assets	December 31, 2003

During the fourth quarter of 2004, the Company received the results of an actuarial valuation to determine the amount of CenterPoint Energy's pension plan assets to be transferred to the new Texas Genco plan under the Employee Income Security Act of 1974. From the actuarial valuation, it was determined that the Company's share of existing plan assets was $39 million.

The new pension plan is underfunded. Pension contributions are not required during 2004, but it is anticipated that $19 million in pension contributions will be required during 2005.

Since the plan's funded status was not remeasured for accounting purposes, the Company's net periodic cost was not impacted by the establishment of the stand-alone plan. Net periodic cost for periods prior to September 1, 2004 represents solely the Company's participation in CenterPoint Energy's pension plan.

The Company's net periodic cost was as follows:

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2003	2004	2003	2004
	(IN MILLIONS)			
Service cost	$ 2	$ 2	$ 5	$ 5
Interest cost	2	2	8	8
Expected return on plan assets	(1)	(2)	(3)	(5)
Net amortization	1	1	3	1
Net periodic cost	$ 4	$ 3	$ 13	$ 9

CenterPoint Energy used the following assumptions to determine net periodic cost relating to pension benefits allocated to the Company:

	2003	2004
Discount rate	6.75%	6.25%
Expected return on plan assets	9.00%	9.00%
Rate of increase in compensation levels	4.10%	4.10%

(b) Postretirement Benefits.

The Company's employees participate in CenterPoint Energy's postretirement benefit plan. Net periodic cost in each of the three month periods ended September 30, 2003 and 2004 was $1 million and $18 million (including $17 million of non-recurring curtailment costs attributable to the discontinued participation of the Company's workforce in the plan as active employees). Net periodic cost in each of the nine month periods ended September 30, 2003 and 2004 was $3 million and $20 million (including $17 million of non-recurring curtailment costs attributable to the discontinued participation of the Company's workforce in the plan as active employees), respectively. The Company expects to contribute $1 million to CenterPoint Energy's postretirement benefits plan in 2004. As of September 30, 2004, $1 million has been contributed.

(11) SUBSEQUENT EVENT

(a) Dividend Payment.

On November 4, 2004, the Company's board of directors declared a dividend of $0.25 per share of common stock payable on December 20, 2004 to shareholders of record as of the close of business on November 26, 2004. If the Public Company Merger occurs on or prior to the record date, the dividend will not be paid.

(b) Tax Legislation.

On October 22, 2004, the American Jobs Creation Act (the "Act") was signed into law. The Act makes several sweeping changes to U.S. taxpayers engaged in cross-border or manufacturing businesses, and some of the provisions of the Act have retroactive effective dates. The Company is currently analyzing the impact

of this legislation, but believes that the Act has no material effect on its financial position as of September 30, 2004.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in combination with the Company's Interim Financial Statements and notes contained in Item 1 of this Form 10-Q.

OVERVIEW

We are a wholesale electric power generating company that owns 60 generating units at 11 electric power generation facilities located in Texas. We also own a 30.8% interest in the South Texas Project Electric Generating Station (South Texas Project), a nuclear generating station with two 1,250 megawatt (MW) nuclear generating units. As of September 30, 2004, the aggregate net generating capacity of our portfolio of assets was 14,153 megawatts (MW), of which 2,585 MW of gas-fired capacity was then mothballed. In May 2004, 403 MW of previously mothballed gas-fired capacity was returned to service. The gas-fired capacity that is currently mothballed is expected to remain mothballed through April 2005. We sell electric generation capacity, energy and ancillary services in the Electric Reliability Council of Texas (ERCOT) market, which is the largest power market in the State of Texas and encompasses the majority of the population centers in the State of Texas. ERCOT facilitates reliable grid operations for approximately 85% of the demand for power in the state.

We are an 81% owned subsidiary of CenterPoint Energy, Inc. (CenterPoint Energy). CenterPoint Energy is a registered public utility holding company under the Public Utility Holding Company Act of 1935, as amended (1935 Act). The 1935 Act and related rules and regulations impose a number of restrictions on the activities of CenterPoint Energy and its subsidiaries. Texas Genco, LP (Genco LP), our wholly owned subsidiary that owns and operates our electric generating plants, is an exempt wholesale generator (EWG) pursuant to an order of the Federal Energy Regulatory Commission (FERC). As a result, Genco LP is exempt from all provisions of the 1935 Act so long as it remains an EWG, and we are no longer a public utility holding company under the 1935 Act.

EXECUTIVE SUMMARY

RECENT EVENTS

DEFINITIVE AGREEMENT FOR THE SALE OF THE COMPANY

On July 21, 2004, we entered into a definitive transaction agreement pursuant to which we have agreed to be acquired in a multistep transaction by GC Power Acquisition for approximately $3.65 billion in cash. The transaction will be accomplished in two steps. In the first step, expected to be completed in the fourth quarter of 2004, we will purchase the approximately 19% of our shares owned by the public (other than shares held by shareholders who validly perfect their dissenters' rights under Texas law) in a cash-out merger at a price of $47.00 per share, without interest and less any applicable withholding taxes (Public Company Merger). In connection with the anticipated Public Company Merger, we have filed with the SEC a Rule 13e-3 transaction statement and a preliminary information statement on Schedule 14C containing information with respect to the transactions contemplated by the definitive transaction agreement, including the Public Company Merger, and related matters. Following the Public Company Merger, one of our subsidiaries that will own our coal, lignite and gas-fired generation plants will merge with a subsidiary of GC Power

Acquisition. The closing of the first step of the transaction is subject to several conditions, including the mailing of a definitive information statement to our shareholders at least 20 days prior to the closing of the Public Company Merger, the receipt of debt financing under the financing commitments described below, the expiration or termination of any applicable waiting period under the antitrust laws (including the Hart Scott Rodino Antitrust Improvement Act of 1976), which occurred on September 17, 2004, and the FERC's certification of the entity that will own our coal, lignite and gas-fired generation plants as an "exempt wholesale generator", which occurred on September 24, 2004. The definitive information statement will be mailed to our shareholders of record as of October 21, 2004. Our shareholders as of the effective date of the Public Company Merger will have the right to either receive the cash consideration for their shares described above or exercise dissenters' rights in connection with the Public Company Merger by properly complying with the requirements of the Texas Business Corporation Act. Within 10 days after the effectiveness of the Public Company Merger, we must mail to all of our shareholders written notice of the effectiveness of the Public Company Merger and of their right to dissent from that transaction within 20 days after the date of our mailing of the notice.

In the second step of the transaction, expected to take place in the first half of 2005 following receipt of approval by the Nuclear Regulatory Commission, Texas Genco, the principal remaining asset of which, at that time, will be its interest in the South Texas Project Electric Generating Station (South Texas Project), will merge with another subsidiary of GC Power Acquisition.

GC Power Acquisition has entered into a commitment letter with financing sources, including Goldman Sachs Credit Partners, L.P., providing for up to $2.5 billion in the aggregate in debt financing for the transaction and a separate overnight loan of $717 million to us to fund the Public Company merger in the first step of the transaction, each subject to customary closing conditions. This overnight loan is expected to be repaid with the proceeds of the merger of one of our subsidiaries that will own our coal, lignite and gas-fired generation plants with a subsidiary of GC Power Acquisition. In addition, GC Power Acquisition's sponsor firms have committed upon closing of the transaction to provide up to $1.08 billion in the aggregate in equity funding for the transaction.

The transaction has been approved by our board of directors acting upon the unanimous recommendation of a special committee composed of independent members of our board of directors. Utility Holding, LLC (Utility Holding), a wholly owned subsidiary of CenterPoint Energy, acting in its capacity as the holder of approximately 81% of our outstanding shares of common stock, has executed a written consent irrevocably approving the transaction agreement and the transactions it contemplates, including the Public Company Merger. Because Utility Holding owns shares of our common stock representing greater than two-thirds of the votes required for approval of the transactions under Texas law, no further vote of our shareholders is required or contemplated.

In connection with the transaction, one of our subsidiaries, Genco LP, entered into a master power purchase and sale agreement with a member of the Goldman Sachs group. Under that agreement, Genco LP has sold forward a substantial quantity of our available base-load capacity through 2008 and pledged $175 million of our first mortgage bonds as collateral for our obligations. Genco LP's obligations under the power purchase agreement will continue regardless of whether the transaction is completed.

On July 23, 2004, two plaintiffs filed substantially identical lawsuits in Harris County, Texas state district court. The suits, purportedly brought on

behalf of holders of our common stock, name us and each of our directors as defendants. Both plaintiffs allege, among other things, self-dealing and breach of fiduciary duty by the defendants in entering into the transaction agreement. As part of their allegations of self-dealing, both plaintiffs claim that our board of directors is controlled by CenterPoint Energy, that the defendants improperly concealed our results of operations for the second quarter of 2004 until after the transaction agreement was announced, and that in order to aid CenterPoint Energy, our board only searched for acquirers who would offer all-cash consideration. Among other relief, the plaintiffs seek to enjoin the transaction or, alternatively, rescind the transaction to the extent already implemented. In August 2004, the cases were consolidated in state district court in Harris County, Texas. We intend to vigorously defend against the consolidated suits.

In the third quarter of 2004, we recorded an after-tax impairment of approximately $426 million related to the write-down of coal, lignite and gas-fired generation assets in connection with the first step of the sale transaction. These assets are classified in the Consolidated Balance Sheets as "held for sale."

AGREEMENT TO PURCHASE ADDITIONAL INTEREST IN THE SOUTH TEXAS PROJECT

On September 3, 2004, Genco LP signed an agreement to purchase a portion of AEP Texas Central Company's (AEP) 25.2% interest in the South Texas Project for approximately $174 million. Once the purchase is complete, Genco LP will own an additional 13.2% interest in the South Texas Project for a total of 44%, or approximately 1,100 MW. This purchase agreement was entered into pursuant to Genco LP's right of first refusal to purchase this interest triggered by AEP's previously announced agreement to sell this interest to a third party. In addition to AEP's ownership interest and Genco LP's current 30.8% ownership, the 2,500 MW nuclear plant is currently 28%-owned by City Public Service of San Antonio and 16%-owned by Austin Energy. City Public Service of San Antonio is purchasing AEP's remaining 12% ownership interest under its right of first refusal. The sale is subject to certain regulatory approvals, including filing under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, and action by the Nuclear Regulatory Commission, the FERC, and the SEC. We expect to fund the purchase of our share of AEP's interest, including reimbursements of draws under letters of credit discussed in Note 7 to our consolidated financial statements, with existing cash balances and cash expected to be generated through operations. We expect to complete this transaction by the end of the first quarter of 2005.

3RD QUARTER 2004 HIGHLIGHTS

In the third quarter 2004, we reported a net loss of $311 million, or $3.89 per diluted share, which includes an after-tax impairment charge of $426 million ($649 million pre-tax) related to the pending sale of our coal, lignite

and gas-fired generation plants to GC Power Acquisition. As a result of the signing of the definitive agreement described above, and in accordance with Statement of Financial Accounting Standards (SFAS) No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets," we ceased depreciation on our coal, lignite and gas-fired generation plants at the time these assets were considered "held for sale." This resulted in a decrease in depreciation expense of $24 million after-tax ($37 million pre-tax) for the quarter. In accordance with SFAS No. 106 "Employers' Accounting for Postretirement Benefits Other Than Pensions," we also recorded a curtailment expense related to postretirement benefits of $11 million after-tax ($17 million pre-tax), which is included in operations and maintenance expense. Excluding these sale-related impacts, net

income for the third quarter of 2004 was $102 million, or $1.27 per share, compared to $82 million, or $1.03 per share, for the same period of 2003 primarily due to higher capacity revenue during 2004 for base-load products driven by continued high natural gas prices and their effect on wholesale electricity prices in the ERCOT market.

2004 OUTLOOK

In our capacity auctions held through September 2004, we have sold forward 100% of our available firm base-load capacity for 2004, representing over $905 million of firm capacity revenue under contract. In addition, we have sold gas-fired and non-firm base-load capacity bringing the total 2004 contracted capacity revenues to over $1.12 billion. Available base-load capacity is defined as our total base-load capacity less planned outages and less up to 750 megawatts of operating reserves. For 2005, we have sold forward in our capacity auctions approximately 80% of our available firm base-load capacity, which represents over $690 million of contracted firm base-load capacity revenue. In addition, we have sold non-firm base-load capacity with revenues of approximately $62 million, bringing the total 2005 contracted capacity revenues to over $750 million. These amounts do not include forward sales of base-load capacity under the master power purchase and sale agreement described above. In addition to capacity sales, we have sold approximately $10 million of surplus emission allowances in the first nine months of 2004, and will evaluate future sales of emissions allowances as opportunities develop. Financial performance in 2004 and beyond is highly dependent on the operating performance of our base-load generating units.

CONSOLIDATED RESULTS OF OPERATIONS

The following table sets forth our consolidated results of operations for the three months and nine months ended September 30, 2003 and 2004, followed by a discussion of our consolidated results of operations.

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MON
	2003	2004	2003
		(IN THOUSANDS)	
REVENUES	$ 657,363	$ 637,885	$ 1,594
EXPENSES:			
Fuel costs	365,913	315,644	923
Purchased power	20,259	17,506	55
Operation and maintenance	100,353	118,914	311
Depreciation and amortization	40,778	4,355	119
Write-down of assets	--	649,000	
Taxes other than income taxes	5,084	8,721	27
Total	532,387	1,114,140	1,436
OPERATING INCOME (LOSS)	124,976	(476,255)	157
OTHER INCOME	489	908	1
INTEREST EXPENSE, NET	(1,298)	--	(6
INCOME (LOSS) BEFORE INCOME TAXES AND CUMULATIVE EFFECT OF ACCOUNTING CHANGE	124,167	(475,347)	152

INCOME TAX BENEFIT (EXPENSE)	(41,761)	164,088	(47
INCOME (LOSS) BEFORE CUMULATIVE EFFECT OF ACCOUNTING CHANGE	82,406	(311,259)	104
CUMULATIVE EFFECT OF ACCOUNTING CHANGE, NET OF TAX	--	--	98
NET INCOME (LOSS)	$ 82,406	$ (311,259)	$ 203
BASIC AND DILUTED EARNINGS PER SHARE:			
Income (Loss) Before Cumulative Effect of Accounting Change	$ 1.03	$ (3.89)	$
Cumulative Effect of Accounting Change, net of tax	--	--	
Net Income (Loss)	$ 1.03	$ (3.89)	$
Sales (MWH)	14,533,513	13,476,047	36,327
Generation (MWH)	13,416,037	13,036,825	34,488

THREE MONTHS ENDED SEPTEMBER 30, 2004 COMPARED TO THREE MONTHS ENDED SEPTEMBER 30, 2003

For the three months ended September 30, 2004, we reported a net loss of $311 million, or $3.89 per diluted share, which includes an after-tax impairment charge of $426 million ($649 million pre-tax) related to the pending sale of our coal, lignite and gas-fired generation plants to GC Power Acquisition. As a result of the signing of the definitive agreement described above, and in accordance with Statement of Financial Accounting Standards (SFAS) No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets," we ceased depreciation on our coal, lignite and gas-fired generation plants at the time these assets were considered "held for sale." This resulted in a decrease in depreciation expense of $24 million after-tax ($37 million pre-tax) for the quarter. In accordance with SFAS No. 106 "Employers' Accounting for Postretirement Benefits Other Than Pensions," we also recorded a curtailment expense related to postretirement benefits of $11 million after-tax ($17 million pre-tax), which is included in operations and maintenance expense. Excluding these sale-related impacts, net income for the third quarter of 2004 was $102 million, or $1.27 per share, compared to $82 million, or $1.03 per share, for the same period of 2003 primarily due to higher capacity revenue during 2004 for base-load products driven by continued high natural gas prices and their effect on wholesale electricity prices in the ERCOT market. Most of these base-load products were sold in capacity auctions held when natural gas prices were higher than when we sold our capacity for

2003. Energy revenues and fuel and purchased power costs declined in the third quarter of 2004 as compared to the same period in 2003 reflecting a reduction in planned and unplanned outages and therefore an increase in availability of our base-load units in 2004 as well as lower demand for gas-fired generation products in 2004. Excluding the curtailment expense of $11 million ($17 million pre-tax) discussed above, operation and maintenance expenses were relatively flat in the third quarter of 2004 as compared to the same period in 2003.

NINE MONTHS ENDED SEPTEMBER 30, 2004 COMPARED TO NINE MONTHS ENDED SEPTEMBER 30, 2003

For the nine months ended September 30, 2004, we reported a net loss of

$170 million, or $2.13 per diluted share, including the sale-related impacts described above. Net income for the nine months ended September 30, 2003, was $204 million, or $2.55 per share, including a non-cash gain of $99 million ($1.24 per share) from the adoption of Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations". Excluding the sale-related impacts, net income for the nine months ended September 30, 2004 was $243 million, or $3.03 per share, and income before the cumulative effect of an accounting change for the same period of 2003 was $105 million, or $1.31 per share. Revenues increased $35 million in the first nine months of 2004 as compared to the same period in 2003 due to higher capacity revenue for base-load products driven by continued high natural gas prices and their effect on wholesale electricity prices in the ERCOT market. Most of these base-load products were sold in capacity auctions held when natural gas prices were higher than when we sold our capacity for 2003. Fuel and purchased power costs declined $169 million in the first nine months of 2004 as compared to the same period in 2003 reflecting a reduction in planned and unplanned outages during 2004 and therefore an increase in availability of our base-load units as well as lower demand for gas-fired generation products in 2004. Excluding the curtailment expense recorded in the third quarter 2004 as discussed above, operation and maintenance expenses decreased $9 million primarily due to the reduction in planned and unplanned outages in the first nine months of 2004 as compared to the same period in 2003, partially offset by increased payroll expense for technical support personnel and transaction-related fees associated with the expected sale of the company to GC Power Acquisition.

In connection with the adoption of Statement of Financial Accounting Standards (SFAS) No. 143, "Accounting for Asset Retirement Obligations" (SFAS No. 143), we completed an assessment of the applicability and implications of SFAS No. 143. As a result of the assessment, we identified retirement obligations for nuclear decommissioning at the South Texas Project and for lignite mine operations at the Jewett mine supplying the Limestone electric generation facility. The net difference between the amounts determined under SFAS No. 143 and the previous method of accounting for estimated mine reclamation costs was $37 million and has been recorded as a cumulative effect of accounting change. Upon adoption of SFAS No. 143, we reversed $115 million of previously recognized removal costs as a cumulative effect of accounting change. The nine months ended September 30, 2003 results include a $99 million after-tax ($152 million pre-tax) non-cash gain ($1.24 per diluted share) from the adoption of SFAS No. 143.

RELATED PARTY TRANSACTIONS

We have entered into a number of agreements with CenterPoint Energy that govern our ongoing relationships with CenterPoint Energy, including providing various services to us. Pursuant to the requirements of the 1935 Act, CenterPoint Energy has formed a service company through which these services are delivered. For information regarding our agreements and other relationships with CenterPoint Energy, please read Note 8 to our Interim Financial Statements and "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Related Party Transactions" in the Texas Genco Form 10-K.

CERTAIN FACTORS AFFECTING FUTURE EARNINGS

For information on other developments, factors and trends that may have an impact on our future earnings, please read the factors listed under "Cautionary Statement Regarding Forward-Looking Information" on Page ii of this Form 10-Q, "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Certain Factors Affecting Future Earnings" in Item 7 of Part II of the Texas Genco Form 10-K and "Risk Factors" in Item 1 of Part I of the Texas Genco Form 10-K, each of which is incorporated herein by reference.

LIQUIDITY AND CAPITAL RESOURCES

HISTORICAL CASH FLOWS

The net cash provided by/used in our operating, investing and financing activities for the nine months ended September 30, 2003 and 2004 is as follows (in millions):

	NINE MONTHS ENDED SEPTEMBER 30,	
	2003	2004
Cash provided by (used in):		
Operating activities............................	$ 234	$ 400
Investing activities............................	(117)	(46)
Financing activities............................	(117)	(61)

CASH PROVIDED BY OPERATING ACTIVITIES

Net cash provided by operating activities increased $166 million for the nine months ended September 30, 2004 as compared to the same period in 2003 primarily as a result of higher capacity auction prices, which were driven by continued high natural gas prices, as well as significantly lower fuel costs resulting from improved availability of our base-load units in 2004.

CASH USED IN INVESTING ACTIVITIES

Net cash used in investing activities decreased $71 million for the nine months ended September 30, 2004 as compared to the same period in 2003 primarily related to a planned reduction in NOx emissions control expenditures.

CASH PROVIDED BY FINANCING ACTIVITIES

Cash used in financing activities decreased $56 million for the nine months ended September 30, 2004 as compared to the same period in 2003 because of the repayment of borrowings owed to CenterPoint Energy during 2003.

FUTURE SOURCES AND USES OF CASH

Our liquidity and capital requirements will be affected by our:

- capital requirements related to environmental compliance and other projects;

- anticipated purchase of an additional interest in the South Texas Project pursuant to the exercise of our right of first refusal as described above under " -- Executive Summary -- Recent Events -- Agreement to Purchase Additional Interest in the South Texas Project";

- dividend policy;

- pension contributions;

- debt service requirements; and

- working capital requirements.

As of September 30, 2004, we had temporary investments of $337 million. As of September 30, 2004, we had no investments in CenterPoint Energy's money pool for unregulated subsidiaries.

In September 2004, Genco LP amended its $75 million senior secured revolving credit facility to increase the facility to $250 million. The revolving credit facility terminates on the earlier of March 2, 2005 or the date of the consummation of the sale of our coal, lignite and gas-fired generation assets to GC Power Acquisition. Proceeds

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from the revolving credit facility will be used to meet ongoing working capital requirements and for other general corporate purposes. Borrowings under the facility may be made at the London interbank offered rate (LIBOR) plus 100 basis points. The facility is secured by a series of Genco LP's first mortgage bonds in an aggregate principal amount of $250 million. All of our real and tangible properties, subject to certain exclusions, are currently subject to the lien of the first mortgage. As of September 30, 2004, there were no borrowings outstanding under the revolving credit facility. As of September 30, 2004, letters of credit aggregating $182 million were issued under the facility in favor of AEP, and are expected to be drawn upon in the first quarter of 2005 to pay the purchase price of an additional interest in the South Texas Project. The expiration date of the letters of credit is August 29, 2005. Our existing cash balances and cash expected to be generated by operations are expected to be used to reimburse the draws under the letters of credit. Under the terms of the credit facility, it is expected that the letters of credit will be cash collateralized at 105% of their face amount upon the sale of our coal, lignite and gas-fired generation assets to GC Power Acquisition. We expect to fund the cash collateral with a portion of the net proceeds of the sale.

We believe that our existing cash balances, cash flows from operations, including sales of available base-load capacity under the master power purchase and sale agreement described above under " -- Executive Summary -- Recent Events -- Definitive Agreement for the Sale of the Company," and our external borrowing capability will be sufficient to meet the operational needs of our business for the next twelve months.

CenterPoint Energy's $2.3 billion bank facility limits our incurrence of indebtedness for borrowed money to an aggregate principal amount not to exceed $250 million outstanding at any time and requires that proceeds from the sale of any material portion of our assets, proportionate to CenterPoint Energy's ownership interest in us and subject to certain other requirements, be used to prepay indebtedness under such credit facility. Our credit facility also limits our incurrence of additional secured indebtedness for borrowed money to a maximum of $175 million aggregate principal amount. Although we are not contractually bound by the limitations in CenterPoint Energy's bank facility, we expect that CenterPoint Energy would likely cause its representatives on our board of directors to direct our business so as not to breach the terms of its facility. CenterPoint Energy intends to seek a waiver from the lenders under its bank facility to permit us to borrow up to $717 million under the overnight bridge loan described below to fund the Public Company Merger.

Under the terms of the definitive transaction agreement for the sale of the company to GC Power Acquisition, we have agreed to certain restrictions on our ability to incur indebtedness. Under these restrictions, prior to closing of the sale transaction we and our subsidiaries may not repurchase, repay or incur any indebtedness, issue any securities in respect of indebtedness or assume, guarantee, endorse or otherwise become responsible for the obligations or

indebtedness of any person, other than:

- as otherwise contemplated by the transaction agreement;
- as required by applicable law;
- items for which GC Power Acquisition has given its prior written consent (which cannot be unreasonably withheld or delayed);
- borrowings under the $717 million overnight bridge loan financing commitment relating to the anticipated Public Company Merger, as described below;
- borrowings under our $250 million credit agreement:
  - to fund the purchase price for an additional interest in the South Texas Project pursuant to the exercise of the right of first refusal described under "Executive Summary -- Recent Events -- Agreement to Purchase Additional Interest in the South Texas Project";
  - to fund dividends or distributions allowed under the terms of the transaction agreement, including regular quarterly cash dividends not in excess of $0.25 per share per quarter; and
  - to fund working capital requirements to meet operating cash needs (up to $75 million in borrowings).

Cash Flows From Operations -- Reliant Energy, Inc. (formerly named Reliant Resources, Inc. (RRI)) as a Significant Customer. To date, we have sold a substantial portion of our auctioned capacity entitlements to subsidiaries of RRI. Pursuant to a Master Power Purchase and Sale Agreement with a subsidiary of RRI related to power sales in the ERCOT market, we have been granted a security interest in accounts receivable and/or notes associated with the accounts receivable of certain subsidiaries of RRI to secure up to $250 million in purchase obligations. For more information regarding the impact that RRI's financial condition may have on our cash flows, please read "Our Business -- Risk Factors " in Item 1 of the Texas Genco Form 10-K. This pledge agreement with RRI will terminate with respect to new obligations incurred on and after January 1, 2005. We expect that the sale of our coal, lignite and gas-fired generation assets to GC Power Acquisition will close prior to January 1, 2005.

Overnight Bridge Loan Facility for the Public Company Merger. As described under "- Executive Summary - Recent Events - Definitive Agreement for the Sale of the Company," in connection with the Public Company Merger, all of the 15,235,760 outstanding shares of our common stock held by our shareholders other than CenterPoint Energy (and those shareholders who validly perfect their dissenters' rights under Texas law) will be converted into the right to receive $47.00 per share in cash (without interest and less any applicable withholding taxes), resulting in an aggregate payment of up to approximately $716 million. Pursuant to GC Power Acquisition's debt financing letter, we have received a commitment from Goldman Sachs Credit Partners, L.P. to provide us with an overnight bridge loan of up to $717 million to finance the Public Company Merger. The overnight bridge loan will mature within 72 hours of its funding. The sale of our coal, lignite and gas fired generation plants to a subsidiary of GC Power Acquisition is expected to close on the business day following the Public Company Merger. We expect to use approximately $717 million of the $2,813 million of aggregate cash consideration we receive in the sale of our non-nuclear assets to fund or repay borrowings used to fund the Public Company

Merger. A portion of the consideration for the sale of our non-nuclear assets will be paid directly to the lenders under the overnight bridge loan facility to the extent necessary to repay in full any amounts outstanding under that facility. We would seek to obtain alternate financing if the overnight bridge loan facility is not available to us, but we do not currently have any alternative financing plans or arrangements.

Borrowings under the overnight bridge loan facility will bear interest at one-day LIBOR plus 100 basis points. The overnight bridge loan facility will be unsecured and guaranteed by all of our existing and subsequently acquired or organized domestic subsidiaries. The overnight bridge loan facility will include events of default as are usual and customary for a financing of its kind, including, without limitation, the following:

- failure to make payments when due;
- defaults under certain other agreements or instruments of indebtedness;
- breaches of representations and warranties; and
- bankruptcy.

We will pay all reasonable, documented out-of-pocket costs and expenses in connection with the overnight bridge loan facility.

The closing of the Public Company Merger is conditioned on our access to the overnight bridge loan facility, which is itself conditioned on, in addition to customary corporate and documentation conditions, the closing and funding into escrow of the debt financing for GC Power Acquisition's purchase of our non-nuclear assets and the closing of documentation related to (but not the funding of) a $475 million delayed draw term loan facility to fund GC Power Acquisition's purchase of our nuclear assets in the last step of the sale transaction.

Intercompany Borrowings. As a result of Genco LP's certification by the FERC as an EWG under the 1935 Act, CenterPoint Energy has established a money pool in which we, CenterPoint Energy and certain other unregulated subsidiaries of CenterPoint Energy can participate. Except in an emergency situation (in which CenterPoint Energy could provide funding pursuant to applicable SEC rules), CenterPoint Energy would be required to obtain approval from the SEC to issue and sell securities for purposes of funding our operations or for CenterPoint Energy to guarantee any of our securities. There is no assurance that CenterPoint Energy will have sufficient funds to meet our cash needs.

Pension Plan. As discussed in Note 6(b) to the consolidated annual financial statements included in the Texas Genco Form 10-K (Texas Genco Notes), we participated in CenterPoint Energy's qualified non-contributory pension plan covering substantially all our employees through August 31, 2004. Pension expense for 2004 is estimated to be $12 million based on an expected return on plan assets of 9.0% and a discount rate of 6.25% as of December 31, 2003. Future changes in plan asset returns, assumed discount rates and various other factors related to the pension will impact our future pension expense and liabilities. We cannot predict with certainty what these factors will be in the future.

On September 1, 2004, we established a separate pension plan whereby we recorded a net pension liability of approximately $68 million in accordance with SFAS No. 87, "Employer's Accounting for Pensions" that was transferred to us from CenterPoint Energy. In October 2004, we received an allocation of assets

from the CenterPoint Energy pension plan pursuant to rules and regulations under the Employee Retirement Income Security Act of 1974 amounting to $39 million. Because the pension plan is underfunded, pension contributions of $19 million are expected to be required in 2005.

OFF-BALANCE SHEET FINANCING

Other than operating leases, we have no off-balance sheet financing arrangements.

CRITICAL ACCOUNTING POLICIES

A critical accounting policy is one that is both important to the presentation of our financial condition and results of operations and requires management to make difficult, subjective or complex accounting estimates. An accounting estimate is an approximation made by management of a financial statement element, item or account in the financial statements. Accounting estimates in our historical consolidated financial statements measure the effects of past business transactions or events, or the present status of an asset or liability. The accounting estimates described below require us to make assumptions about matters that are highly uncertain at the time the estimate is made. Additionally, different estimates that we could have used or changes in an accounting estimate that are reasonably likely to occur could have a material impact on the presentation of our financial condition or results of operations. The circumstances that make these judgments difficult, subjective and/or complex have to do with the need to make estimates about the effect of matters that are inherently uncertain. Estimates and assumptions about future events and their effects cannot be predicted with certainty. We base our estimates on historical experience and on various other assumptions that we believe are reasonable under the circumstances, the results of which form the basis for making judgments. These estimates may change as new events occur, as more experience is acquired, as additional information is obtained and as our operating environment changes. Our significant accounting policies are discussed in Note 2 of the Texas Genco Notes. We believe the following accounting policy involves the application of critical accounting estimates. Accordingly, these accounting estimates have been reviewed and discussed with the audit committee of the board of directors.

IMPAIRMENT OF LONG-LIVED ASSETS

We review the carrying value of our long-lived assets, including identifiable intangibles, whenever events or changes in circumstances indicate that such carrying values may not be recoverable. Unforeseen events and changes in circumstances and market conditions and material differences in the value of long-lived assets and intangibles due to changes in estimates of future cash flows, regulatory matters and operating costs could negatively affect the fair value of our assets and result in an impairment charge.

Fair value is the amount at which the asset could be bought or sold in a current transaction between willing parties and may be estimated using a number of techniques, including quoted market prices or valuations by third parties, present value techniques based on estimates of cash flows, or multiples of earnings or revenue performance measures. The fair value of the asset could be different using different estimates and assumptions in these valuation techniques. Changes in any of these assumptions could result in an impairment charge.

The fair value of our assets could be materially affected by a change in the estimated future cash flows for these assets. We estimate future cash flows using a probability-weighted approach based on the fair value of our common stock, operating projections and estimates of how long we will retain these assets.

In the third quarter of 2004, we recorded an after-tax impairment of approximately $426 million related to the write-down of coal, lignite and gas-fired generation assets in connection with the first step of the sale transaction. These assets have been classified in the Consolidated Balance Sheets as "held for sale."

NEW ACCOUNTING PRONOUNCEMENTS

See Note 4 to the Interim Financial Statements for a discussion of new accounting pronouncements that affect us.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

INTEREST RATE RISK

As discussed in Note 9 to the Interim Financial Statements, CenterPoint Energy Houston Electric, LLC (CenterPoint Houston), as collection agent for the nuclear decommissioning charge assessed on its transmission and distribution customers, contributed $2.9 million in 2003 and expects to contribute $2.9 million in 2004 to trusts established to fund our share of the decommissioning costs for the South Texas Project. The securities held by the trusts for decommissioning costs had an estimated fair value of $200 million as of September 30, 2004, of which approximately 37% were debt securities that subject us to risk of loss of fair value with movements in market interest rates. If interest rates were to increase by 10% from their levels at September 30, 2004, the fair value of the fixed-rate debt securities would decrease by approximately $1 million.

EQUITY MARKET VALUE RISK

As discussed above under " -- Interest Rate Risk," CenterPoint Houston contributes to trusts established to fund our share of the decommissioning costs for the South Texas Project, which held approximately 63% of total assets in equity securities as of September 30, 2004. The equity securities expose us to losses in fair value. If the market prices of the individual equity securities were to decrease by 10% from their levels at September 30, 2004, the resulting loss in fair value of these securities would be approximately $12 million.

COMMODITY PRICE RISK

Our gross margins (revenues less fuel and purchase power costs) related to unsold base-load capacity are dependent upon the market price for power in the ERCOT market. Our gross margins are primarily derived from the sale of capacity entitlements associated with our large, solid fuel base-load generating units, including our Limestone and W.A. Parish facilities and our interest in the South Texas Project. The gross margins generated from payments associated with the capacity of these units are directly impacted by natural gas prices. Since the fuel costs for our base-load units are largely fixed under long-term contracts, they are generally not subject to significant daily and monthly fluctuations. Because natural gas is the marginal fuel of facilities serving the ERCOT market during most hours, its price has a significant influence on the price of electric power. As a result, the price customers are willing to pay for entitlements to our solid fuel base-load capacity generally rises and falls with natural gas prices.

As discussed in Note 2 to the Interim Financial Statements, Genco LP entered into a master power purchase and sale agreement with a member of the Goldman Sachs group in connection with the definitive agreement for the sale of our company entered into on July 21, 2004. Under that agreement, Genco LP has sold forward a substantial quantity of its available base-load capacity through

2008. We have designated the master power purchase and sale agreement as a cash flow hedge of the forecasted sale of base-load capacity through 2008.

The sensitivity analysis performed on Genco LP's master power purchase and sale agreement measures the potential loss based on a hypothetical 10% movement in power prices. An increase of 10% in the market prices of electric power from their September 30, 2004 levels would have decreased the fair value of Genco LP's master power purchase and sale agreement from their levels on that date by $196 million.

The above analysis of the Genco LP master power and sale agreement utilized for hedging purposes does not include the favorable impact that the same hypothetical price movement would have on Genco LP's forecasted sale of base-load capacity to which the hedges relate. Therefore, the adverse impact to the fair value of the Genco LP master power purchase and sale agreement held for hedging purposes associated with the hypothetical changes in electric power prices referenced above would be offset by a favorable impact to the underlying hedged forecasted sale of base-load capacity.

ITEM 4. CONTROLS AND PROCEDURES

In accordance with Exchange Act Rules 13a-15 and 15d-15, we carried out an evaluation, under the supervision and with the participation of management, including our principal executive officer and principal financial officer, of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective as of September 30, 2004 to provide assurance that information required to be disclosed in our reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

There has been no change in our internal controls over financial reporting that occurred during the three months ended September 30, 2004 that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are, from time to time, a party to litigation arising in the normal course of our business, most of which involves contract disputes or claims for personal injury and property damage incurred in connection with our operations. For a description of a number of lawsuits involving claims of asbestos exposure at properties owned by us, please read "Our Business -- Environmental Matters -- Asbestos" in Item 1 of the Texas Genco Form 10-K, which is incorporated herein by reference. For a description of a lawsuit involving alleged violations of state and federal antitrust laws, please read "Texas Antitrust Action" in Note 9 to our Interim Financial Statements, which is incorporated herein by reference. For a description of lawsuits against the company and our board of directors involving alleged self-dealing and breach of fiduciary duty, please read Note 2 to our Interim Financial Statements, which is incorporated herein by reference.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

On July 21, 2004, Utility Holding, acting in its capacity as the record holder of 64,764,240 shares, or approximately 81%, of our outstanding common

stock, executed a written consent irrevocably approving the transaction agreement with GC Power Acquisition and the transactions it contemplates. For more information regarding the transaction agreement, please read "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Executive Summary -- Recent Events -- Definitive Agreement for the Sale of the Company" in Item 2 of this report.

ITEM 6. EXHIBITS

The following exhibits are filed herewith:

Exhibits not incorporated by reference to a prior filing are designated by a cross (+); all exhibits not so designated are incorporated by reference to a prior filing as indicated. Pursuant to Item 601(b)(2) of Regulation S-K, Texas Genco has not filed the exhibits and schedules to Exhibits 2.1 and 2.2. Texas Genco hereby agrees to furnish a copy of any such exhibit or schedule to the SEC upon request.

EXHIBIT NUMBER	DESCRIPTION	REPORT OR REGISTRATION STATEMENT	SEC F OR REGIST NUM
2.1	-- Transaction Agreement dated July 21, 2004 among CenterPoint Energy, Inc., Utility Holding, LLC, NN Houston Sub, Inc., Texas Genco Holdings, Inc., HPC Merger Sub, Inc. and GC Power Acquisition LLC (excluding exhibits and schedules thereto)	Texas Genco Holdings, Inc.'s ("Texas Genco") Current Report on Form 8-K dated July 21, 2004	1-3
+2.2	-- Purchase and Sale Agreement by and between AEP Texas Central Company and City of San Antonio acting by and through The City Public Service Board of San Antonio and Texas Genco, L.P., dated as of September 3, 2003		
3.1	-- Amended and Restated Articles of Incorporation	Texas Genco 's Form 10-K for the year ended December 31, 2002	1-3
3.2	-- Amended and Restated Bylaws	Texas Genco's Form 10-K for the year ended December 31, 2002	1-3
4.1	-- Specimen Stock Certificate	Texas Genco's registration statement on Form 10	1-3
4.2.1	-- $75,000,000 revolving credit facility dated as of December 23, 2003 among Texas Genco, LP and the banks names therein	CenterPoint Energy, Inc.'s Form 10-K for the year ended December 31, 2003	1-3

+4.2.2	-- First Amendment to Exhibit 4.2.1, dated as of September 3, 2004
+10.1	-- Master Power Purchase and Sale Agreement, dated July 21, 2004, by and between J. Aron & Company and Texas Genco, LP (including the

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	cover sheet, confirmation letter, annexes and schedules thereto) (portions of this document have been omitted pursuant to a request for confidential treatment and filed separately with the SEC)
+10.2	-- Texas Genco Retirement Plan, as established effective September 1, 2004
+10.3	-- Texas Genco Retirement Trust, as established effective September 1, 2004
+10.4	-- First Amendment to Texas Genco Holdings, Inc. Performance Unit Plan (effective as of January 1, 2003), effective as of October 1, 2004
+10.5	-- First Amendment to Texas Genco Short Term Incentive Plan (effective as of January 1, 2004), effective as of October 1, 2004
+10.6	-- Texas Genco Holdings, Inc. Severance Benefits Plan #2050 (effective June 1, 2004)
+10.7	-- Texas Genco Holdings, Inc. Severance Benefits Plan #2060 (effective October 1, 2004)
+10.8	-- Texas Genco Severance Benefits Plan #2060 (as amended and restated effective October 1, 2004)

+31.1	-- Rule 13a-14(a)/15d-14(a) Certification of David G. Tees
+31.2	-- Rule 13a-14(a)/15d-14(a) Certification of Gary L. Whitlock
+32.1	-- Section 1350 Certification of David G. Tees
+32.2	-- Section 1350 Certification of Gary L. Whitlock
+99.1	-- Items incorporated by reference from the Texas Genco Form 10-K: "Risk Factors" in Item 1, "Our Business -- Environmental Matters -- Asbestos" in Item 1, "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Certain Factors Affecting Future Earnings" in Item 7, and Notes 2(f) and 8 to the Texas Genco Notes

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

TEXAS GENCO HOLDINGS, INC.

By: /s/ James S. Brian

James S. Brian
Senior Vice President and Chief Accounting Officer

Date: November 9, 2004

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Exhibit Index

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Condition and Results of
Operations -- Certain
Factors Affecting Future
Earnings" in Item 7, and
Notes 2(f) and 8 to the
Texas Genco Notes

line; FONT-FAMILY: times new roman; FONT-SIZE: 10pt">218 $14,386

Loans collectively evaluated for impairment
212,397 176,792 70,331 100,421 559,941
Total ending loans balance
$213,824 $186,939 $72,925 $100,639 $574,327

December 31, 2013	Residential Real Estate	Commercial Real Estate	Commercial and Industrial	Consumer	Total
Allowance for loan losses:					
Ending allowance balance attributable to loans:					
Individually evaluated for impairment	$213	$1,541	$864	$7	$2,625
Collectively evaluated for impairment	1,037	1,266	441	786	3,530
Total ending allowance balance	$1,250	$2,807	$1,305	$793	$6,155
Loans:					
Loans individually evaluated for impairment	$1,438	$10,382	$2,658	$218	$14,696
Loans collectively evaluated for impairment	212,570	175,284	61,707	102,062	551,623
Total ending loans balance	$214,008	$185,666	$64,365	$102,280	$566,319

The following table presents information related to loans individually evaluated for impairment by class of loans:

Three months ended March 31, 2014	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Average Impaired Loans	Interest Income Recognized	Cash Basis Interest Recognized
With no related allowance recorded:						
Residential real estate	$526	$526	$----	$527	$7	$7
Commercial real estate:						
Owner-occupied	1,827	1,124	----	1,203	9	9
Nonowner-occupied	6,292	5,692	----	5,717	75	75
Commercial and industrial	2,066	1,657	----	1,734	20	20
With an allowance recorded:						
Residential real estate	901	901	232	906	9	9
Commercial real estate:						
Nonowner-occupied	3,331	3,331	1,361	3,344	34	34
Commercial and industrial	937	937	850	892	10	10
Consumer:						

Home equity	218	218	6	218	2	2
Total	$ 16,098	$ 14,386	$ 2,449	$ 14,541	$ 166	$ 166

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Three months ended March 31, 2013	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Average Impaired Loans	Interest Income Recognized	Cash Basis Interest Recognized
With no related allowance recorded:						
Residential real estate	$830	$686	$----	$703	$3	$3
Commercial real estate:						
Owner-occupied	5,644	5,098	----	5,313	72	72
Nonowner-occupied	7,849	7,049	----	7,052	93	93
Commercial and industrial	422	----	----	----	----	----
Consumer:						
Home equity	219	219	----	220	3	3
With an allowance recorded:						
Residential real estate	426	426	133	423	4	4
Commercial real estate:						
Nonowner-occupied	3,441	3,441	1,979	3,456	41	41
Total	$18,831	$16,919	$2,112	$17,167	$216	$216

Year ended December 31, 2013	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Average Impaired Loans	Interest Income Recognized	Cash Basis Interest Recognized
With no related allowance recorded:						
Residential real estate	$766	$766	$----	$539	$41	$41
Commercial real estate:						
Owner-occupied	1,539	992	----	809	39	39
Nonowner-occupied	6,343	5,743	----	6,359	345	345
Commercial and industrial	2,223	1,811	----	1,234	96	96
With an allowance recorded:						
Residential real estate	672	672	213	524	35	35
Commercial real estate:						
Owner-occupied	290	290	157	116	----	----
Nonowner-occupied	3,357	3,357	1,384	3,423	164	164
Commercial and industrial	847	847	864	602	46	46
Consumer:						
Home equity	218	218	7	87	9	9
Total	$16,255	$14,696	$2,625	$13,693	$775	$775

The recorded investment of a loan is its carrying value excluding accrued interest and deferred loan fees.

Nonaccrual loans and loans past due 90 days or more and still accruing include both smaller balance homogenous loans that are collectively evaluated for impairment and individually classified as impaired loans.

The following table presents the recorded investment of nonaccrual loans and loans past due 90 days or more and still accruing by class of loans as of March 31, 2014 and December 31, 2013:

March 31, 2014	Loans Past Due 90 Days And Still Accruing	Nonaccrual
Residential real estate	$38	$3,189
Commercial real estate:		
Owner-occupied	----	465
Nonowner-occupied	----	----
Commercial and industrial	----	2
Consumer:		
Automobile	12	4
Home equity	----	38
Other	----	----
Total	$50	$3,698

December 31, 2013	Loans Past Due 90 Days And Still Accruing	Nonaccrual
Residential real estate	$72	$2,662
Commercial real estate:		
Owner-occupied	----	799
Nonowner-occupied	----	52
Commercial and industrial	----	21
Consumer:		
Automobile	5	8
Home equity	----	38
Other	1	----
Total	$78	$3,580

The following table presents the aging of the recorded investment of past due loans by class of loans as of March 31, 2014 and December 31, 2013:

March 31, 2014	30-59 Days Past Due	60-89 Days Past Due	90 Days Or More Past Due	Total Past Due	Loans Not Past Due	Total
Residential real estate	$2,241	$508	$2,994	$5,743	$208,081	$213,824
Commercial real estate:						
Owner-occupied	117	----	465	582	93,590	94,172
Nonowner-occupied	----	----	----	----	62,661	62,661
Construction	----	----	----	----	30,106	30,106
Commercial and industrial	66	----	2	68	72,857	72,925
Consumer:						
Automobile	435	83	12	530	39,093	39,623
Home equity	----	----	38	38	17,489	17,527
Other	532	34	----	566	42,923	43,489
Total	$3,391	$625	$3,511	$7,527	$566,800	$574,327

December 31, 2013	30-59 Days Past Due	60-89 Days Past Due	90 Days Or More Past Due	Total Past Due	Loans Not Past Due	Total
Residential real estate	$3,922	$1,324	$2,620	$7,866	$206,142	$214,008
Commercial real estate:						
Owner-occupied	206	34	683	923	93,663	94,586
Nonowner-occupied	----	----	52	52	62,056	62,108
Construction	60	----	----	60	28,912	28,972
Commercial and industrial	193	115	21	329	64,036	64,365
Consumer:						
Automobile	638	123	13	774	38,037	38,811

Home equity	----	----	38	38	17,710	17,748
Other	651	38	1	690	45,031	45,721
Total	$5,670	$1,634	$3,428	$10,732	$555,587	$566,319

Troubled Debt Restructurings:

A troubled debt restructuring ("TDR") occurs when the Company has agreed to a loan modification in the form of a concession for a borrower who is experiencing financial difficulty. All TDR's are considered to be impaired. The modification of the terms of such loans included one or a combination of the following: a reduction of the stated interest rate of the loan; an extension of the maturity date at a stated rate of interest lower than the current market rate for new debt with similar risk; a reduction in the contractual principal and interest payments of the loan; or short-term interest-only payment terms.

The Company has allocated reserves for a portion of its TDR's to reflect the fair values of the underlying collateral or the present value of the concessionary terms granted to the customer.

The following table presents the types of TDR loan modifications by class of loans as of March 31, 2014 and December 31, 2013:

	TDR's Performing to Modified Terms	TDR's Not Performing to Modified Terms	Total TDR's
March 31, 2014			
Residential real estate			
Interest only payments	$526	$----	$526
Rate reduction	417	----	417
Commercial real estate:			
Owner-occupied			
Rate reduction	----	258	258
Maturity extension at lower stated rate than market rate	271	----	271
Nonowner-occupied			
Interest only payments	8,380	----	8,380
Reduction of principal and interest payments	644	----	644
Commercial and industrial			
Interest only payments	1,657	----	1,657
Consumer:			
Home equity			
Maturity extension at lower stated rate than market rate	218	----	218
Total TDR's	$12,113	$258	$12,371

	TDR's Performing to Modified Terms	TDR's Not Performing to Modified Terms	Total TDR's
December 31, 2013			
Residential real estate			
Interest only payments	$527	$----	$527
Rate reduction	420	----	420
Commercial real estate:			
Owner-occupied			
Rate reduction	----	259	259
Maturity extension at lower stated rate than market rate	271	----	271
Nonowner-occupied			
Interest only payments	8,450	----	8,450
Reduction of principal and interest payments	650	----	650
Commercial and industrial			
Interest only payments	1,811	----	1,811
Consumer:			
Home equity			
Maturity extension at lower stated rate than market rate	218	----	218

Total TDR's	$12,347	$259	$12,606

During the three months ended March 31, 2014, the TDR's described above decreased the provision expense and the allowance for loan losses by $26 with no corresponding charge-offs. During the year ended December 31, 2013, the TDR's described above decreased the allowance for loan losses by $321 with no corresponding charge-offs. This resulted in a decrease to provision expense of $871 during the year ended December 31, 2013.

At March 31, 2014, the balance in TDR loans decreased $235, or 1.9%, from year-end 2013. The decrease was largely due to principal payments of $154 received on one commercial and industrial loan during the first quarter of 2014. At March 31, 2014 and December 31, 2013, a total of 98% of the Company's TDR's were performing according to their modified terms. The Company allocated $1,485 and $1,511 in reserves to customers whose loan terms have been modified in TDR's as of March 31, 2014 and December 31, 2013, respectively. At March 31, 2014, the Company had $872 in commitments to lend additional amounts to customers with outstanding loans that are classified as TDR's, as compared to $718 at December 31, 2013.

There were no TDR loan modifications that occurred during the three months ended March 31, 2014. The following table presents the pre- and post-modification balances of TDR loan modifications by class of loans that occurred during the three months ended March 31, 2013:

	TDR's Performing to Modified Terms		TDR's Not Performing to Modified Terms	
Three months ended March 31, 2013	Pre-Modification Recorded Investment	Post-Modification Recorded Investment	Pre-Modification Recorded Investment	Post-Modification Recorded Investment
Residential real estate				
Interest only payments	$249	$ 249	$----	$ ----
Total TDR's	$249	$ 249	$----	$ ----

As of March 31, 2013, all of the Company's loans that were restructured during the three months ended March 31, 2013 were performing in accordance with their modified terms. Furthermore, there were no TDR's described above at March 31, 2013 that experienced any payment defaults within twelve months following their loan modification. A default is considered to have occurred once the TDR is past due 90 days or more or it has been placed on nonaccrual. TDR loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured. The loans modified during the three months ended March 31, 2013 had no impact on the provision expense or the allowance for loan losses. As of March 31, 2013, the Company had no allocation of reserves to customers whose loan terms were modified during the first three months of 2013.

Credit Quality Indicators:

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt, such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. These risk categories are represented by a loan grading scale from 1 through 10. The Company analyzes loans individually with a higher credit risk rating and groups these loans into categories called "criticized" and "classified" assets. The Company considers its criticized assets to be loans that are graded 8 and its classified assets to be loans that are graded 9 or 10. The Company's risk categories are reviewed at least annually on loans that have aggregate borrowing amounts that meet or exceed $500.

The Company uses the following definitions for its criticized loan risk ratings:

Special Mention (Loan Grade 8). Loans classified as special mention indicate considerable risk due to deterioration of repayment (in the earliest stages) due to potential weak primary repayment source, or payment delinquency. These loans will be under constant supervision, are not classified and do not expose the institution to sufficient risks to warrant classification.

These deficiencies should be correctable within the normal course of business, although significant changes in company structure or policy may be necessary to correct the deficiencies. These loans are considered bankable assets with no apparent loss of principal or interest envisioned. The perceived risk in continued lending is considered to have increased beyond the level where such loans would normally be granted. Credits that are defined as a troubled debt restructuring should be graded no higher than special mention until they have been reported as performing over one year after restructuring.

The Company uses the following definitions for its classified loan risk ratings:

Substandard (Loan Grade 9). Loans classified as substandard represent very high risk, serious delinquency, nonaccrual, or unacceptable credit. Repayment through the primary source of repayment is in jeopardy due to the existence of one or more well defined weaknesses, and the collateral pledged may inadequately protect collection of the loans. Loss of principal is not likely if weaknesses are corrected, although financial statements normally reveal significant weakness. Loans are still considered collectible, although loss of principal is more likely than with special mention loan grade 8 loans. Collateral liquidation is considered likely to satisfy debt.

Doubtful (Loan Grade 10). Loans classified as doubtful display a high probability of loss, although the amount of actual loss at the time of classification is undetermined. This should be a temporary category until such time that actual loss can be identified, or improvements made to reduce the seriousness of the classification. These loans exhibit all substandard characteristics with the addition that weaknesses make collection or liquidation in full highly questionable and improbable. This classification consists of loans where the possibility of loss is high after collateral liquidation based upon existing facts, market conditions, and value. Loss is deferred until certain important and reasonable specific pending factors which may strengthen the credit can be more accurately determined. These factors may include proposed acquisitions, liquidation procedures, capital injection, receipt of additional collateral, mergers, or refinancing plans. A doubtful classification for an entire credit should be avoided when collection of a specific portion appears highly probable with the adequately secured portion graded substandard.

Criticized and classified loans will mostly consist of commercial and industrial and commercial real estate loans. The Company considers its loans that do not meet the criteria for a criticized and classified asset rating as pass rated loans, which will include loans graded from 1 (Prime) to 7 (Watch). All commercial loans are categorized into a risk category either at the time of origination or reevaluation date. As of March 31, 2014 and December 31, 2013, and based on the most recent analysis performed, the risk category of commercial loans by class of loans was as follows:

March 31, 2014	Pass	Criticized	Classified	Total
Commercial real estate:				
Owner-occupied	$86,389	$5,210	$2,573	$94,172
Nonowner-occupied	51,814	7,049	3,798	62,661
Construction	29,169	----	937	30,106
Commercial and industrial	64,893	4,281	3,751	72,925
Total	$232,265	$16,540	$11,059	$259,864

December 31, 2013	Pass	Criticized	Classified	Total
Commercial real estate:				
Owner-occupied	$86,497	$5,310	$2,779	$94,586
Nonowner-occupied	51,119	7,107	3,882	62,108
Construction	27,998	----	974	28,972
Commercial and industrial	56,962	4,081	3,322	64,365
Total	$222,576	$16,498	$10,957	$250,031

The Company also obtains the credit scores of its borrowers upon origination (if available by the credit bureau), but the scores are not updated. The Company focuses mostly on the performance and repayment ability of the borrower as

an indicator of credit risk and does not consider a borrower's credit score to be a significant influence in the determination of a loan's credit risk grading.

For residential and consumer loan classes, the Company evaluates credit quality based on the aging status of the loan, which was previously presented, and by payment activity. The following table presents the recorded investment of residential and consumer loans by class of loans based on repayment activity as of March 31, 2014 and December 31, 2013:

March 31, 2014		Consumer			
	Automobile	Home Equity	Other	Residential Real Estate	Total
Performing	$39,607	$17,489	$43,489	$210,597	$311,182
Nonperforming	16	38	----	3,227	3,281
Total	$39,623	$17,527	$43,489	$213,824	$314,463

December 31, 2013		Consumer			
	Automobile	Home Equity	Other	Residential Real Estate	Total
Performing	$38,798	$17,710	$45,720	$211,274	$313,502
Nonperforming	13	38	1	2,734	2,786
Total	$38,811	$17,748	$45,721	$214,008	$316,288

The Company, through its subsidiaries, originates residential, consumer, and commercial loans to customers located primarily in the southeastern areas of Ohio as well as the western counties of West Virginia. Approximately 5.42% of total loans were unsecured at March 31, 2014, up from 5.13% at December 31, 2013.

NOTE 5 - FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

The Bank is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit, standby letters of credit and financial guarantees. The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit, and financial guarantees written, is represented by the contractual amount of those instruments. The contract amounts of these instruments are not included in the consolidated financial statements. At March 31, 2014, the contract amounts of these instruments totaled approximately $60,204, compared to $67,465 at December 31, 2013. The Bank uses the same credit policies in making commitments and conditional obligations as it does for instruments recorded on the balance sheet. Since many of these instruments are expected to expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements.

NOTE 6 - OTHER BORROWED FUNDS

Other borrowed funds at March 31, 2014 and December 31, 2013 were comprised of advances from the Federal Home Loan Bank ("FHLB") of Cincinnati and promissory notes.

	FHLB Borrowings	Promissory Notes	Totals
March 31, 2014	$ 16,632	$3,529	$20,161
December 31, 2013	$ 15,219	$3,529	$18,748

Pursuant to collateral agreements with the FHLB, advances were secured by $192,263 in qualifying mortgage loans, $87,369 in commercial loans and $5,081 in FHLB stock at March 31, 2014. Fixed-rate FHLB advances of $16,632 mature through 2042 and have interest rates ranging from 1.53% to 3.31% and a year-to-date weighted average cost of 2.26%. There were no variable-rate FHLB borrowings at March 31, 2014.

At March 31, 2014, the Company had a cash management line of credit enabling it to borrow up to $75,000 from the FHLB. All cash management advances have an original maturity of 90 days. The line of credit must be renewed on an annual basis. There was $75,000 available on this line of credit at March 31, 2014.

Based on the Company's current FHLB stock ownership, total assets and pledgeable loans, the Company had the ability to obtain borrowings from the FHLB up to a maximum of $187,067 at March 31, 2014. Of this maximum borrowing capacity, the Company had $187,067 available to use as additional borrowings, of which $75,000 could be used for short-term, cash management advances, as mentioned above.

Promissory notes, issued primarily by Ohio Valley, have fixed rates of 1.15% to 5.00% and are due at various dates through a final maturity date of December 3, 2015. At March 31, 2014, there were no promissory notes payable by Ohio Valley to related parties.

Letters of credit issued on the Bank's behalf by the FHLB to collateralize certain public unit deposits as required by law totaled $30,000 at March 31, 2014 and $25,000 at December 31, 2013.

Scheduled principal payments as of March 31, 2014:

	FHLB Borrowings	Promissory Notes	Totals
2014	$1,365	$2,411	$3,776
2015	1,462	1,118	2,580
2016	1,386	----	1,386
2017	1,321	----	1,321
2018	1,267	----	1,267
Thereafter	9,831	----	9,831
	$16,632	$3,529	$20,161

NOTE 7 – SEGMENT INFORMATION

The reportable segments are determined by the products and services offered, primarily distinguished between banking and consumer finance. They are also distinguished by the level of information provided to the chief operating decision maker, who uses such information to review performance of various components of the business, which are then aggregated if operating performance, products/services, and customers are similar. Loans, investments, and deposits provide the majority of the net revenues from the banking operation, while loans provide the majority of the net revenues for the consumer finance segment. All Company segments are domestic.

Total revenues from the banking segment, which accounted for the majority of the Company's total revenues, totaled 85.7% and 86.8% of total consolidated revenues for the quarters ended March 31, 2014 and 2013, respectively.

The accounting policies used for the Company's reportable segments are the same as those described in Note 1 - Summary of Significant Accounting Policies. Income taxes are allocated based on income before tax expense.

Information for the Company’s reportable segments is as follows:

	Three Months Ended March 31, 2014		
	Banking	Consumer Finance	Total Company
Net interest income	$7,421	$1,361	$8,782
Provision expense	$375	$119	$494

Noninterest income	$3,573	$545	$4,118
Noninterest expense	$6,611	$684	$7,295
Tax expense	$1,173	$374	$1,547
Net income	$2,835	$729	$3,564
Assets	$812,584	$12,951	$825,535

	Three Months Ended March 31, 2013		
	Banking	Consumer Finance	Total Company
Net interest income	$7,149	$1,272	$8,421
Provision expense	$(65)	$96	$31
Noninterest income	$3,493	$447	$3,940
Noninterest expense	$7,296	$652	$7,948
Tax expense	$830	$329	$1,159
Net income	$2,581	$642	$3,223
Assets	$821,720	$13,188	$834,908

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(dollars in thousands, except share and per share data)

Forward Looking Statements

Except for the historical statements and discussions contained herein, statements contained in this report constitute "forward looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Act of 1934 and as defined in the Private Securities Litigation Reform Act of 1995. Such statements are often, but not always, identified by the use of such words as "believes," "anticipates," "expects," and similar expressions. Such statements involve various important assumptions, risks, uncertainties, and other factors, many of which are beyond our control that could cause actual results to differ materially from those expressed in such forward looking statements. These factors include, but are not limited to: changes in political, economic or other factors such as inflation rates, recessionary or expansive trends, taxes, the effects of implementation of the Budget Control Act of 2011 and the American Taxpayer Relief Act of 2012 and the continuing economic uncertainty in various parts of the world; competitive pressures; fluctuations in interest rates; the level of defaults and prepayment on loans made by the Company; unanticipated litigation, claims, or assessments; fluctuations in the cost of obtaining funds to make loans; and regulatory changes. Additional detailed information concerning a number of important factors which could cause actual results to differ materially from the forward-looking statements contained in management's discussion and analysis is available in the Company's filings with the Securities and Exchange Commission, under the Securities Exchange Act of 1934, including the disclosure under the heading "Item 1A. Risk Factors" of Part 1 of the Company's Annual Report on Form 10- K for the fiscal year ended December 31, 2013. Readers are cautioned not to place undue reliance on such forward looking statements, which speak only as of the date hereof. The Company undertakes no obligation and disclaims any intention to republish revised or updated forward looking statements, whether as a result of new information, unanticipated future events or otherwise.

Financial Overview

The Company is primarily engaged in commercial and retail banking, offering a blend of commercial and consumer banking services within southeastern Ohio as well as western West Virginia. The banking services offered by the Bank include the acceptance of deposits in checking, savings, time and money market accounts; the making and servicing of personal, commercial, floor plan and student loans; the making of construction and real estate loans; and credit card services. The Bank also offers individual retirement accounts, safe deposit boxes, wire transfers and other standard banking products and services. In addition, the Bank is one of a limited number of financial institutions that

facilitates the payment of tax refunds through a third-party tax software provider. The Bank has facilitated the payment of these tax refunds through electronic refund check/deposit (“ERC/ERD”) transactions. ERC/ERD transactions involve the payment of a tax refund to the taxpayer after the Bank has received the refund from the federal/state government. ERC/ERD transactions occur primarily during the tax refund season, typically during the first quarter of each year. Loan Central also provides refund anticipation loans (“RALs”) to its customers. RALs are short-term cash advances against a customer’s anticipated income tax refund.

Net income totaled $3,564 during the first quarter of 2014, an increase of $341, or 10.6%, compared to $3,223 during the first quarter of 2013. Earnings per share for the first quarter of 2014 also increased by $.08, or 10.1%, compared to the first quarter of 2013, to finish at $.87 per share. The annualized net income to average asset ratio, or return on assets (“ROA”), improved to 1.70% at March 31, 2014, compared to 1.56% at March 31, 2013. The Company’s net income to average equity ratio, or return on equity (“ROE”), improved to 17.84% at March 31, 2014, compared to 17.13% at March 31, 2013. The increase in earnings compared to the first quarter of 2013 was largely attributable to higher net interest income and lower noninterest expenses in 2014 than experienced in 2013.

The Company’s net interest income and margin were $8,782 and 4.51%, respectively, for the first quarter of 2014, an increase of 4.3% in net interest income and 2.5% in the margin. The primary reasons for net interest income and margin improvement include increasing average earning assets, a decrease in premium expense on mortgage-backed securities and declines in higher-costing time deposits and subordinated debentures. These positive impacts completely offset the downward pressure on asset yields due to long-term interest rates remaining at historically low levels.

In 2014, provision expense increased $463 over the prior year’s first quarter. While the Company experienced a 29.2% decrease in net charge-offs and an 18.1% decrease in nonperforming loans from a year ago, management determined an increase of general allocations was necessary related to specific loan portfolio risks.

Total noninterest income was $4,118 for the quarter ended March 31, 2014, which was 4.5% higher than the prior year’s first quarter. Year-over-year increases were largely due to tax processing fees through ERC/ERD transactions and a $135 fee as part of an agreement to sell its pro rata share of ProAlliance, a specialty property and casualty insurance company. These increases were partially offset by a 74.8% decrease in bank owned life insurance and annuity asset income compared to the first quarter of 2013.

Total noninterest expense was $7,295 for the quarter ended March 31, 2014, a decrease of 8.2% from the prior year’s first quarter, largely due to a decrease of $234 in foreclosure expenses. The Company also incurred a fee of $212 during the first quarter of 2013 associated with the redemption of higher-costing, trust preferred securities, which was not repeated during the first quarter of 2014.

At March 31, 2014, total assets were $825,535, compared to $747,368 at year-end 2013, with the increase due mostly to temporary interest-bearing deposits into the Company’s Federal Reserve Clearing account that were generated from seasonal tax clearing activities during the first quarter of 2014. Gross loan balances were up 1.4% from year-end 2013. Total investment securities increased 4.3% to $111,478 at March 31, 2014, compared to $106,894 at year-end 2013, mostly from purchases of mortgage-backed securities.

Total liabilities were $742,118 at March 31, 2014, up $75,169 since December 31, 2013. Total deposit balances experienced continued growth during 2014, increasing $73,083 compared to year-end 2013. Noninterest-bearing deposits accounted for $69,379 of the increase and were the result of normal seasonal increases in tax refund processing activities and municipal public fund deposit balances. At March 31, 2014, other borrowed funds were $20,161, up 7.5% compared to year-end 2013.

At March 31, 2014, total shareholders' equity was $83,417, up $2,998 since December 31, 2013. Regulatory capital ratios remained significantly higher than the "well capitalized" minimums.

Comparison of
Financial Condition
at March 31, 2014 and December 31, 2013

The following discussion focuses, in more detail, on the consolidated financial condition of the Company at March 31, 2014 compared to December 31, 2013. This discussion should be read in conjunction with the interim consolidated financial statements and the footnotes included in this Form 10-Q.

Cash and Cash Equivalents

At March 31, 2014, cash and cash equivalents increased $67,260, to finish at $95,604, compared to $28,344 at December 31, 2013. The increase in cash and cash equivalents was largely due to deposit liability growth from year-end 2013, mostly from seasonal increases in ERC/ERD transactions. The Company continues to utilize its interest-bearing Federal Reserve Bank clearing account to maintain these excess funds, which are expected to decrease during the remainder of 2014. The interest rate paid on both the required and excess reserve balances is based on the targeted federal funds rate established by the Federal Open Market Committee, which currently is 0.25%. This interest rate is similar to what the Company would have received from its investments in federal funds sold, currently in a range of less than 0.25%. Furthermore, Federal Reserve Bank balances are 100% secured.

As liquidity levels vary continuously based on consumer activities, amounts of cash and cash equivalents can vary widely at any given point in time. Carrying excess cash has a negative impact on interest income since the Company currently only earns 0.25% on its deposits with the Federal Reserve. As a result, the Company's focus will be to re-invest these excess funds back into longer-term, higher-yielding assets, primarily loans, when the opportunities arise.

Securities

The balance of total securities increased $4,584, or 4.3%, compared to year-end 2013. The increase came mostly from U.S. Government agency ("Agency") mortgage-backed securities, which increased $4,772, or 6.3%, from year-end 2013. The Company's investment securities portfolio is made up mostly of agency mortgage-backed securities, representing 71.8% of total investments at March 31, 2014. During the first quarter of 2014, the Company invested $8,040 in new Agency mortgage-backed securities, while receiving principal repayments of $3,497. The monthly repayment of principal has been the primary advantage of Agency mortgage-backed securities as compared to other types of investment securities, which deliver proceeds upon maturity or call date. However, with the current low interest rate environment, the cash flow is being reinvested at lower rates.

Loans

The loan portfolio represents the Company's largest asset category and is its most significant source of interest income. At March 31, 2014, gross loan balances finished at $574,327, an increase of $8,008, or 1.4%, from year-end 2013. Higher loan balances were mostly impacted by increased origination volume within the commercial and industrial loan portfolio, which grew $8,560, or 13.3%, from year-end 2013. Commercial and industrial loans consist of loans to corporate borrowers primarily in small to mid-sized industrial and commercial companies that include service, retail and wholesale merchants. Collateral securing these loans includes equipment, inventory, and stock. Commercial real estate loans comprise the largest portion of the Company's total commercial loan portfolio, representing 71.9% at March 31, 2014. Commercial real estate loans experienced an increase of $1,273, or 0.69%, from year-end 2013, largely within construction loans. While management believes lending opportunities exist in the Company's markets, future commercial lending activities will depend upon economic and related conditions, such as general demand for loans in the Company's primary markets, interest rates offered by the Company, the effects of competitive pressure and normal underwriting considerations. Management will continue to place emphasis on its commercial lending, which generally yields a higher return on investment as compared to other types of loans.

Residential real estate loan balances comprise the largest portion of the Company's loan portfolio at 37.2% and consist primarily of one- to four-family residential mortgages and carry many of the same customer and industry risks as the commercial loan portfolio. Residential real estate loan balances were relatively flat during the three months ended March 31, 2014, decreasing just $184, or 0.1%, from year-end 2013. Movement within the real estate portfolio consists of decreasing long-term fixed-rate mortgages partially offset by increasing short-term adjustable-rate

mortgage balances. Long-term interest rates continue to remain at historic low levels and prompted periods of increased refinancing demand for long-term, fixed-rate real estate loans, most recently during the second half of 2012. As part of management’s interest rate risk strategy, the Company continues to sell most of its long-term fixed-rate residential mortgages to the Federal Home Loan Mortgage Corporation, while maintaining the servicing rights for those mortgages. Since 2012, the refinancing volume for long-term fixed-rate real estate loans has trended down, which contributed to a 75.0% decrease in real estate loans sold during the three months ended March 31, 2014 compared to the first quarter of 2013. A customer that does not qualify for a long-term, secondary market loan may choose from one of the Company's other adjustable-rate mortgage products, which contributed to higher balances of adjustable-rate mortgages from year-end 2013.

Consumer loan balances decreased $1,641, or 1.6%, from year-end 2013. This consumer loan decrease was impacted most by a 1.2% decrease in home equity lines of credit balances and a 4.9% decrease in other consumer loan balances that include mobile homes, recreational vehicles, consumer real estate and unsecured loans. The Company has historically experienced declining trends within its automobile loan segment due to competitive pressures with below-market interest rate offerings and alternative methods of refinancing. However, during the first three months of 2014, auto loan balances increased $812, or 2.1%, from year-end 2013, due to loan origination volume increases. The Company will continue to monitor its auto lending segment while maintaining strict loan underwriting processes to limit future loss exposure.

Allowance for Loan Losses

The Company established a $6,462 allowance for loan losses at March 31, 2014, an increase of $307, or 5.0%, from year-end 2013. These additional reserves were impacted mostly from general allocation increases the Company felt were necessary to maintain the allowance for loans losses at an adequate level. As part of the Company's quarterly analysis of the allowance for loan losses, management reviewed various factors that directly impact the general allocation need of the allowance, which include: historical loan losses, loan delinquency levels, local economic conditions and unemployment rates, criticized/classified asset coverage levels and loan loss recoveries. During the first quarter of 2014, adjustments were made to the commercial loan loss factor, extending the range of loan loss period from a 3-year rolling average to a 5-year rolling average. This update was due to the significant decline in net charge-offs that have been experienced since the first quarter of 2012 that were contributing to a lower historical loan loss factor for commercial loans. By extending the historical loss period to five years, management feels the historical factor is more representative of the expected losses to be incurred on commercial loans. Management also increased its economic risk factor by adjusting its criticized/classified asset thresholds to incorporate more risk potential within the Company's special mention and substandard loan portfolios. As a result, the general allocation component of the allowance for loan losses increased $483, or 13.7%, from year-end 2013.

Specific allocations of the allowance for loan losses that identified collateral impairment of certain impaired loans decreased $176, or 6.7%, from year-end 2013. The Company also benefited from minimal change in its troubled assets, with nonperforming loans to total loans finishing at 0.65% at March 31, 2014, unchanged from year-end 2013, while nonperforming assets to total assets were 0.63% at March 31, 2014, a decrease of 4 basis points from year-end 2013. Impaired loans at March 31, 2014 also decreased $310, or 2.1%, from year-end 2013.

The ratio of the allowance for loan losses to total loans increased to 1.13% at March 31, 2014, compared to 1.09% at December 31, 2013. Management believes that the allowance for loan losses at March 31, 2014 was adequate and reflected probable incurred losses in the loan portfolio. There can be no assurance, however, that adjustments to the allowance for loan losses will not be required in the future. Changes in the circumstances of particular borrowers, as well as adverse developments in the economy are factors that could change and make adjustments to the allowance for loan losses necessary. Asset quality will continue to remain a key focus, as management continues to stress not just loan growth, but quality in loan underwriting as well.

Deposits

Deposits continue to be the most significant source of funds used by the Company to meet obligations for depositor withdrawals, to fund the borrowing needs of loan customers, and to fund ongoing operations. Total deposits at March 31, 2014 increased $73,083, or 11.6%, from year-end 2013 primarily from noninterest-bearing deposit balances. During the first quarter of 2014, the Company experienced a significant increase in its business checking account balances, which increased $69,596, or 77.4%, from year-end 2013. This increase was largely the result of ERC/ERD tax refund items processed during the first quarter of 2014. During 2014, the Company benefited from the successful volume increase in ERC/ERD transactions. As a result of the tax processing activity being seasonal, the

elevated first quarter balances within the Company’s business checking accounts should decrease during the remainder of 2014.

Deposit growth also came from interest-bearing NOW account balances, which increased $10,894, or 24.1%, during the first three months of 2014 as compared to year-end 2013. This increase was largely driven by growth in municipal NOW products due to seasonality of tax collections received, which typically decrease in the second quarter.

In the first quarter of 2014, time deposits decreased $4,979, or 2.9%, from year-end 2013. As certificates of deposit (“CD”) market rates continue to adjust downward, the spread between a short-term CD rate and a statement savings rate has become small enough that many customers choose to invest balances into a more liquid product, perhaps hoping for rising rates in the near future. This change in time deposits from year-end 2013 fits within management’s strategy of focusing on more “core” deposit balances that include interest-bearing demand, savings, money market and noninterest-bearing deposit balances.

While facing increased competition for deposits in its market areas, the Company will continue to emphasize growth and retention in its core deposit relationships during the remainder of 2014, reflecting the Company’s efforts to reduce its reliance on higher cost funding and improving net interest income.

Other Borrowed Funds

Other borrowed funds were $20,161 at March 31, 2014, an increase of $1,413, or 7.5%, from year-end 2013. While deposits continue to be the primary source of funding for growth in earning assets, management will continue to utilize Federal Home Loan Bank advances and promissory notes to help manage interest rate sensitivity and liquidity.

Shareholders’ Equity

The Company maintains a capital level that exceeds regulatory requirements as a margin of safety for its depositors. At March 31, 2014, the Bank’s capital exceeded the minimum requirements to be deemed “well capitalized” under applicable prompt corrective action regulations. Total shareholders' equity at March 31, 2014 of $83,417 increased $2,998, or 3.7%, as compared to $80,419 at December 31, 2013. Contributing most to this increase was year-to-date net income of $3,564, partially offset by cash dividends paid of $861, or $.21 per share.

Comparison of Results of Operations
for the Three Months Ended
March 31, 2014 and 2013

The following discussion focuses, in more detail, on the consolidated results of operations of the Company for the three months ended March 31, 2014 compared to the same period in 2013. This discussion should be read in conjunction with the interim consolidated financial statements and the footnotes included in this Form 10-Q.

Net Interest Income

The most significant portion of the Company's revenue, net interest income, results from properly managing the spread between interest income on earning assets and interest expense incurred on interest-bearing liabilities. During the first quarter of 2014, net interest income increased $361, or 4.3%, as compared to the first quarter of 2013. The improvement was largely due to a higher net interest margin impacted by increased average loans, lower premium expenses on investment securities and lower funding costs.

Total interest and fee income recognized on the Company's earning assets increased $28, or 0.3%, during the first quarter of 2014, as compared to the same period in 2013. Asset yields on the Company's earning assets have been negatively impacted by lower market rates and higher average balances within the Company's lower-yielding Federal Reserve Bank clearing account. As a result, the earning asset yield at March 31, 2014 was 4.87% compared to 4.95% at March 31, 2013. Lower asset yields were offset by growth in average loans during the first quarter of 2014, increasing $16,655, or 3.0%, over the first quarter of 2013, driven mostly by the commercial loan portfolio. The Company further benefited from increased earnings within investment securities, which increased $98, or 22.1%, from year-end 2013, coming primarily from Agency mortgage-backed securities. The effect of slower refinancing volume evident during the first quarter of 2014 has resulted in less principal repayments from Agency mortgage-backed securities, which has caused monthly premium expense to amortize more slowly. While interest revenues from Agency mortgage-backed securities have decreased $133 from a year ago, amortization expenses have lowered by $227 to completely offset the decline in interest and generate a 34.3% net increase in earnings during the first quarter of 2014, as compared to the same period in 2013.

Total interest expense incurred on the Company's interest-bearing liabilities during the first quarter of 2014 decreased $333, or 31.4%, from the same period in 2013. The decrease was primarily due to a sustained low-rate environment that has impacted the repricings of various Bank deposit products, especially time deposit balances, which continued to reprice at lower rates during 2014. As a result, the Company's weighted average costs for time deposits decreased from 1.26% at March 31, 2013 to 0.87% at March 31, 2014. The Company also continues to experience a deposit composition shift away from higher costing average time deposits to lower costing average interest- and non-interest bearing core deposit balances. As a result, the Company's average time deposit balances decreased $29,502, or 14.8%, while average interest- and non-interest bearing core deposits increased $35,130, or 6.7%, during the first three months of 2014 when compared to the same period in 2013. As a result of decreases in the average market interest rates and the continued deposit composition shift to lower costing deposit balances, the Company's total weighted average costs on interest-bearing deposits have lowered 19 basis points from 0.68% at March 31, 2013 to 0.49% at March 31, 2014.

Further impacting lower funding costs was a decrease of $98, or 70.5%, in interest expense incurred on the Company's subordinated debentures during the first quarter of 2014 compared to 2013. The Company redeemed one $5,000 trust preferred security classified as subordinated debentures during the first quarter of 2013. The redemption relieved the Company of incurring expenses on $5,000 at a fixed-rate of 10.6%.

During 2014, the decline in asset yields was completely offset by a larger decline in funding costs. As a result, the Company's net interest margin improved 11 basis points to 4.51% during the first quarter of 2014, as compared to the same period in 2013. The Company will continue to focus on re-deploying the excess liquidity retained within the Federal Reserve account earning 0.25% into higher yielding assets as opportunities arise. The Company will continue to face pressure on its net interest income and margin improvement unless loan balances continue to expand and remain a larger component of overall earning assets.

Provision for Loan Losses

During the first quarter of 2014, provision expense charges totaled $494, as compared to provision expense charges of $31 during the first quarter of 2013. Provision expense was largely impacted by increases in the general allocations of the allowance for loan losses. During the first quarter of 2014, several general allocation metrics were re-evaluated and adjusted, as previously discussed within the caption "Allowance for Loan Losses", contributing to higher general allocations within the residential real estate and commercial loan portfolios from year-end 2013. Losses related to net charge-offs totaled $187 during the first quarter of 2014, as compared to $264 during the first quarter of 2013.

Future provisions to the allowance for loan losses will continue to be based on management's quarterly in-depth evaluation that is discussed in further detail under the caption "Critical Accounting Policies - Allowance for Loan Losses" within this Management's Discussion and Analysis.

Noninterest Income

Noninterest income for the three months ended March 31, 2014 was $4,118, an increase of $178, or 4.5%, over the three months ended March 31, 2013. Noninterest income improvement during 2014 was largely affectedby increased seasonal tax refund processing fees classified as ERC/ERD fees. During the first quarter of 2014, the Company's ERC/ERD fees increased by $543, or 25.8%, as compared to the same period in 2013 due to an increase in the number of ERC/ERD transactions that were processed. As a result of ERC/ERD fee activity being mostly seasonal, the majority of income will be recorded during the first half of 2014, with only minimal income expected during the second half of 2014.

The Company also recorded a gain on sale of its ownership interest in ProAlliance Corporation ("ProAlliance") of $135 during the first quarter of 2014, which represents the first of two installments the Company expects to receive during 2014. The Company owns 9% of ProAlliance. The first installment of $135 was received on February 5, 2014, when the Company received its pro rata share of a non-refundable fee giving the buyers an option to purchase the outstanding shares of ProAlliance. Assuming the transaction receives regulatory approval and the buyer exercises its option to purchase the shares, the Company anticipates receiving $675 for its ownership interest in ProAlliance, which should occur by June 2014. Should the second installment be paid, the sum of the two payments will total $810, which will be reported as a gain on sale. The after-tax impact to the Company's 2014 net income from the gain would be $535. Offsetting the gain would be a reduction in dividend income each year following the closing.

Partially offsetting this noninterest revenue growth from tax processing fees and gain on sale of ProAlliance was a decreasein the Company's earnings from tax-free bank owned life insurance ("BOLI") investments. During the first quarter of 2013, the Company received $1,249 in cash proceeds from the settlement of two BOLI policies, which yielded net BOLI proceeds of $452 that was recorded to income. This income from the first quarter of 2013 was not repeated in 2014. As a result, BOLI and annuity asset earnings were down $472, or 74.8%, during the first quarter of 2014.

The Company's remaining noninterest income categories were collectively down $28, or 2.3%, during the first quarter of 2014, when compared to the same period in 2013. These changes were primarily due to decreases in service charges on deposits and mortgage banking income.

Noninterest Expense

Noninterest expense during the first quarter of 2014 decreased $653, or 8.2%, from the first quarter in 2013. Contributing to the decline in net overhead expense were lower salaries and employee benefits, decreased foreclosed asset costs, the lack of a one-time trust preferred security redemption fee in 2013 and lower state taxes.

The Company's largest noninterest expense item, salaries and employee benefits, decreased $62, or 1.4%, during the three months ended March 31, 2014, when compared to the same period in 2013. The decrease was largely due to lower retirement benefit costs, which more than offset increased salary expenses related to annual merit adjustments.

Foreclosed asset costs also declined $234, or 79.3%, from the first quarter of 2013. Foreclosure asset expenses include legal fees, taxes, utilities and general maintenance costs related to the properties.

Further impacting noninterest expense was a $212 fee to redeem one of the Company's trust preferred securities during the first quarter of 2013 that was not repeated in 2014.

The Company also benefited from a reduction in state taxes disbursed during the first quarter of 2014. As a result of the new Ohio state tax methodology for financial institutions, the Company's tax expense decreased $82, or 36.1%,

during the first quarter of 2014 versus the same period in 2013. This lower tax is anticipated to continue for the rest of 2014.

The net change in remaining noninterest expense categories during the first quarter of 2014 decreased $63, or 2.3%, as compared to the same period in 2013, related to decreases in various categories such as furniture and equipment, FDIC insurance, supplies and postage.

The Company's efficiency ratio is defined as noninterest expense as a percentage of fully tax-equivalent net interest income plus noninterest income. Management continues to place emphasis on managing its balance sheet mix and interest rate sensitivity as well as developing more innovative ways to generate noninterest revenue. During the first quarter of 2014, the Company was successful in generating higher net revenues due to increased average earning assets, strong net interest margin and growth in tax processing fees. Furthermore, overhead expenses decreased during the first quarter of 2014 impacted by foreclosure costs, subordinated debenture redemption fee and salaries and employee benefits. As a result, net revenue levels for 2014 have outpaced overhead expense, causing the efficiency ratio to improve from the prior quarter. The first quarter 2014 efficiency ratio finished at 55.9%, as compared to 63.7% during the first quarter of 2013.

Capital Resources

All of the Company's capital ratios exceeded the regulatory minimum guidelines, as identified in the following table:

	Company Ratios		
	3/31/14	12/31/13	Regulatory Minimum
Tier 1 risk-based capital	15.9%	15.7%	4.00%
Total risk-based capital ratio	17.1%	16.8%	8.00%
Leverage ratio	10.6%	11.7%	4.00%

Cash dividends paid of $861 during the first three months of 2014 represents a 112.1% increase compared to the cash dividends paid during the same period in 2013. The year-to-date dividend rate in 2014 was $0.21 per share, up from $0.10 per share paid in 2013. The Company declared and paid in December 2012 a $0.21 per share dividend that normally would have been paid during the first quarter of 2013, as a result of potential changes in tax rates affecting shareholders in 2013. The Company proceeded to pay a "special" $0.10 per share dividend during the first quarter of 2013 due to the Company's stable capital position and financial performance.

Liquidity

Liquidity relates to the Company's ability to meet the cash demands and credit needs of its customers and is provided by the ability to readily convert assets to cash and raise funds in the market place. Total cash and cash equivalents, held to maturity securities maturing within one year and available for sale securities, totaling $184,462, represented 22.3% of total assets at March 31, 2014. In addition, the FHLB offers advances to the Bank, which further enhances the Bank's ability to meet liquidity demands. At March 31, 2014, the Bank could borrow an additional $140,436 from the FHLB, of which $75,000 could be used for short-term, cash management advances. Furthermore, the Bank has established a borrowing line with the Federal Reserve. At March 31, 2014, this line had total availability of $39,701. Lastly, the Bank also has the ability to purchase federal funds from a correspondent bank.

Off-Balance Sheet Arrangements

As discussed in Note 5 – Financial Instruments with Off-Balance Sheet Risk, the Company engages in certain off-balance sheet credit-related activities, including commitments to extend credit and standby letters of credit, which could require the Company to make cash payments in the event that specified future events occur. Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the

contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Standby letters of credit are conditional commitments to guarantee the performance of a customer to a third party. While these commitments are necessary to meet the financing needs of the Company's customers, many of these commitments are expected to expire without being drawn upon. Therefore, the total amount of commitments does not necessarily represent future cash requirements.

Critical Accounting Policies

The most significant accounting policies followed by the Company are presented in Note A to the financial statements in the Company's 2013 Annual Report to Shareholders. These policies, along with the disclosures presented in the other financial statement notes, provide information on how significant assets and liabilities are valued in the financial statements and how those values are determined. Management views critical accounting policies to be those which are highly dependent on subjective or complex judgments, estimates and assumptions, and where changes in those estimates and assumptions could have a significant impact on the financial statements. Management currently views the adequacy of the allowance for loan losses to be a critical accounting policy.

The allowance for loan losses is a valuation allowance for probable incurred credit losses. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. Management estimates the allowance balance required using past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions, and other factors. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged off.

The allowance consists of specific and general components. The specific component relates to loans that are individually classified as impaired. A loan is impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. Impaired loans generally consist of loans with balances of $200 or more on nonaccrual status or nonperforming in nature. Loans for which the terms have been modified, and for which the borrower is experiencing financial difficulties, are considered troubled debt restructurings and classified as impaired.

Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length and reasons for the delay, the borrower's prior payment record, and the amount of shortfall in relation to the principal and interest owed.

Commercial and commercial real estate loans are individually evaluated for impairment. If a loan is impaired, a portion of the allowance is allocated so that the loan is reported, net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from the collateral. Smaller balance homogeneous loans, such as consumer and most residential real estate, are collectively evaluated for impairment, and accordingly, they are not separately identified for impairment disclosure. Troubled debt restructurings are measured at the present value of estimated future cash flows using the loan's effective rate at inception. If a troubled debt restructuring is considered to be a collateral dependent loan, the loan is reported, net, at the fair value of the collateral. For troubled debt restructurings that subsequently default, the Company determines the amount of reserve in accordance with the accounting policy for the allowance for loan losses.

The general component covers non-impaired loans and impaired loans that are not individually reviewed for impairment and is based on historical loss experience adjusted for current factors. The historical loss experience is determined by portfolio segment and is based on the actual loss history experienced by the Company over the most recent 3 years for the consumer and real estate portfolio segment and 5 years for the commercial portfolio segment. Prior to 2013, the commercial portfolio's historical loss factor was based on a period of 3 years. During the first quarter of 2014, management extended the loan loss history to 5 years due to the significant decline in net charge-offs that have been experienced since the first quarter of 2012. By extending the historical loan loss period to 5 years, management feels the historical factor is more representative of the expected losses to be incurred on commercial

loans. The total loan portfolio's actual loss experience is supplemented

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with other economic factors based on the risks present for each portfolio segment. These economic factors include consideration of the following: levels of and trends in delinquencies and impaired loans; levels of and trends in charge-offs and recoveries; trends in volume and terms of loans; effects of any changes in risk selection and underwriting standards; other changes in lending policies, procedures, and practices; experience, ability, and depth of lending management and other relevant staff; national and local economic trends and conditions; industry conditions; and effects of changes in credit concentrations. The following portfolio segments have been identified: Commercial Real Estate, Commercial and Industrial, Residential Real Estate, and Consumer.

Commercial and industrial loans consist of borrowings for commercial purposes by individuals, corporations, partnerships, sole proprietorships, and other business enterprises. Commercial and industrial loans are generally secured by business assets such as equipment, accounts receivable, inventory, or any other asset excluding real estate and generally made to finance capital expenditures or operations. The Company’s risk exposure is related to deterioration in the value of collateral securing the loan should foreclosure become necessary. Generally, business assets used or produced in operations do not maintain their value upon foreclosure, which may require the Company to write down the value significantly to sell.

Commercial real estate consists of nonfarm, nonresidential loans secured by owner-occupied and nonowner-occupied commercial real estate as well as commercial construction loans. An owner-occupied loan relates to a borrower purchased building or space for which the repayment of principal is dependent upon cash flows from the ongoing business operations conducted by the party, or an affiliate of the party, who owns the property. Owner-occupied loans that are dependent on cash flows from operations can be adversely affected by current market conditions for their product or service. A nonowner-occupied loan is a property loan for which the repayment of principal is dependent upon rental income associated with the property or the subsequent sale of the property. Nonowner-occupied loans that are dependent upon rental income are primarily impacted by local economic conditions which dictate occupancy rates and the amount of rent charged. Commercial construction loans consist of borrowings to purchase and develop raw land into one- to four-family residential properties. Construction loans are extended to individuals as well as corporations for the construction of an individual or multiple properties and are secured by raw land and the subsequent improvements. Repayment of the loans to real estate developers is dependent upon the sale of properties to third parties in a timely fashion upon completion. Should there be delays in construction or a downturn in the market for those properties, there may be significant erosion in value which may be absorbed by the Company.

Residential real estate loans consist of loans to individuals for the purchase of one- to four-family primary residences with repayment primarily through wage or other income sources of the individual borrower. The Company’s loss exposure to these loans is dependent on local market conditions for residential properties as loan amounts are determined, in part, by the fair value of the property at origination.

Consumer loans are comprised of loans to individuals secured by automobiles, open-end home equity loans and other loans to individuals for household, family, and other personal expenditures, both secured and unsecured. These loans typically have maturities of 5 years or less with repayment dependent on individual wages and income. The risk of loss on consumer loans is elevated as the collateral securing these loans, if any, rapidly depreciate in value or may be worthless and/or difficult to locate if repossession is necessary. During the last several years, one of the most significant portions of the Company’s net loan charge-offs have been from consumer loans. Nevertheless, the Company has allocated the highest percentage of its allowance for loan losses as a percentage of loans to the other identified loan portfolio segments due to the larger dollar balances associated with such portfolios.

Concentration of Credit Risk

The Company maintains a diversified credit portfolio, with residential real estate loans currently comprising the most significant portion. Credit risk is primarily subject to loans made to businesses and individuals in southeastern Ohio and western West Virginia. Management believes this risk to be general in nature, as there are no material concentrations of loans to any industry or consumer group. To the extent possible, the Company diversifies its loan portfolio to limit credit risk by avoiding industry concentrations.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company's goal for interest rate sensitivity management is to maintain a balance between steady net interest income growth and the risks associated with interest rate fluctuations. Interest rate risk ("IRR") is the exposure of the Company's financial condition to adverse movements in interest rates. Accepting this risk can be an important source of profitability, but excessive levels of IRR can threaten the Company's earnings and capital.

The Company evaluates IRR through the use of an earnings simulation model to analyze net interest income sensitivity to changing interest rates. The modeling process starts with a base case simulation, which assumes a static balance sheet and flat interest rates. The base case scenario is compared to rising and falling interest rate scenarios assuming a parallel shift in all interest rates. Comparisons of net interest income and net income fluctuations from the flat rate scenario illustrate the risks associated with the current balance sheet structure.

The Company's Asset/Liability Committee monitors and manages IRR within Board approved policy limits. The current IRR policy limits anticipated changes in net interest income to an instantaneous increase or decrease in market interest rates over a 12 month horizon to +/- 5% for a 100 basis point rate shock, +/- 7.5% for a 200 basis point rate shock and +/- 10% for a 300 basis point rate shock. Based on the level of interest rates, management did not test interest rates down 200 or 300 basis points.

The following table presents the Company's estimated net interest income sensitivity:

Change in Interest Rates in Basis Points	March 31, 2014 Percentage Change in Net Interest Income	December 31, 2013 Percentage Change in Net Interest Income
+300	2.60%	(3.04%)
+200	1.91%	(1.84%)
+100	1.03%	(.82%)
-100	(3.13%)	(2.55%)

The estimated percentage change in net interest income due to a change in interest rates was within the policy guidelines established by the Board. With the historical low interest rate environment, management generally has been focused on limiting the duration of assets, while trying to extend the duration of our funding sources to the extent customer preferences will permit us to do so. At March 31, 2014, the interest rate risk profile reflects an asset sensitive position, which produces higher net interest income due to an increase in interest rates. This is a change from the liability sensitive position at year end. Contributing to the change in interest rate risk profile was the significant increase in liquidity due to tax refund processing. The additional liquidity is maintained in an interest-bearing account at the Federal Reserve and the interest rate is highly correlated to any rate change

implemented by the Federal Reserve as part of its monetary policy. Since the deposit balance associated with tax refund processing is seasonal, management expects a portion of the balance maintained at the Federal Reserve to decline in subsequent quarters, which will reduce or eliminate our asset sensitive position. In a declining rate environment, net interest income is impacted by the interest rate on many deposit accounts not being able to adjust downward. With interest rates so low, deposit accounts are perceived to be at or near an interest rate floor. As a result, net interest income decreases in a declining interest rate environment. Overall, management is comfortable with the current interest rate risk profile which reflects minimal exposure to interest rate changes.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

With the participation of the Chief Executive Officer (the principal executive officer) and the Vice President and Chief Financial Officer (the principal financial officer) of Ohio Valley, Ohio Valley's management has evaluated the effectiveness of Ohio Valley's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the quarterly period covered by this Quarterly Report on Form 10-Q. Based on that evaluation, Ohio Valley's Chief Executive Officer and Vice President and Chief Financial Officer have concluded that Ohio Valley's disclosure controls and procedures are effective as of the end of the quarterly period covered by this Quarterly Report on Form 10-Q to ensure that information required to be disclosed by Ohio Valley in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by Ohio Valley in the reports that it files or submits under the Exchange Act is accumulated and communicated to Ohio Valley's management, including its principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

There was no change in Ohio Valley's internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that occurred during Ohio Valley's fiscal quarter ended March 31, 2014, that has materially affected, or is reasonably likely to materially affect, Ohio Valley's internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Not applicable.

ITEM 1A. RISK FACTORS

You should carefully consider the risk factors discussed in Part I, "Item 1A. Risk Factors" in Ohio Valley's Annual Report on Form 10-K for the year ended December 31, 2013, as filed with the Securities and Exchange Commission on March 17, 2014 and available at www.sec.gov. These risk factors could materially affect the Company's business, financial condition or future results. The risk factors described in the Annual Report on Form 10-K are not the only risks facing the Company. Additional risks and uncertainties not currently known to the Company or that management currently deems to be immaterial also may materially adversely affect the Company's business, financial condition and/or operating results. Moreover, the Company undertakes no obligation and disclaims any intention to publish revised information or updates to forward looking statements contained in such risk factors or in any other statement made at any time by any director, officer, employee or other representative of the Company unless and until any such revisions or updates are expressly required to be disclosed by applicable securities laws or regulations.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Ohio Valley did not purchase any of its shares during the three months ended March 31, 2014.

Ohio Valley did not sell any unregistered equity securities during the three months ended March 31, 2014.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

Not applicable.

ITEM 6. EXHIBITS

(a) Exhibits:
Reference is made to the Exhibit Index set forth immediately following the signature page of this Form 10-Q.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

			OHIO VALLEY BANC CORP.
Date:	May 12, 2014	By:	/s/Thomas E. Wiseman Thomas E. Wiseman President and Chief Executive Officer
Date:	May 12, 2014	By:	/s/Scott W. Shockey Scott W. Shockey Vice President and Chief Financial Officer

EXHIBIT INDEX

The following exhibits are included in this Form 10-Q or are incorporated by reference as noted in the following table:

Exhibit Number	Exhibit Description
3(a)	Amended Articles of Incorporation of Ohio Valley (reflects amendments through April 7, 1999) [for SEC reporting compliance only - - not filed with the Ohio Secretary of State]. Incorporated herein by reference to Exhibit 3(a) to Ohio Valley's Annual Report on Form 10-K for fiscal year ended December 31, 2007 (SEC File No. 0-20914).
3(b)	Code of Regulations of Ohio Valley (as amended by the shareholders on May 12, 2010): Incorporated herein by reference to Exhibit 3(b) to Ohio Valley's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2010 (SEC File No. 0-20914).
4	Agreement to furnish instruments and agreements defining rights of holders of long-term debt: Filed herewith.
31.1	Rule 13a-14(a)/15d-14(a) Certification (Principal Executive Officer): Filed herewith.
31.2	Rule 13a-14(a)/15d-14(a) Certification (Principal Financial Officer): Filed herewith.
32	Section 1350 Certifications (Principal Executive Officer and Principal Accounting Officer): Filed herewith.
101.INS*	XBRL Instance Document: Filed herewith.*
101.SCH*	XBRL Taxonomy Extension Schema: Filed herewith.*
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase: Filed herewith.*
101.DEF*	XBRL Taxonomy Extension Definition Linkbase: Filed herewith.*
101.LAB*	XBRL Taxonomy Extension Label Linkbase: Filed herewith.*
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase: Filed herewith.*

Attached as Exhibit 101 are the following documents formatted in XBRL (eXtensive Business Reporting Language): (i) Unaudited Consolidated Balance Sheets; (ii) Unaudited Condensed Consolidated Statements of Income; (iii) Unaudited Consolidated Statements of Comprehensive Income; (iv) Unaudited Condensed Consolidated Statements of Changes in Stockholders' Equity; (v) Unaudited Condensed Consolidated Statements of Cash Flows; and (vi) Notes to the Consolidated Financial Statements.