PPL ELECTRIC UTILITIES CORP
Form DEF 14C
April 30, 2007

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14C

Information Statement Pursuant to Section 14(c) of the Securities Exchange Act of 1934

Check the appropriate box:

o Preliminary Information Statement

o Confidential, for Use of the Commission Only (as permitted by Rule 14c-5(d)(2))

þ Definitive Information Statement.

PPL Electric Utilities Corporation

(Name of Registrant as Specified in Its Charter)

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þ No fee required.

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PPL Electric Utilities Corporation

Notice of Annual Meeting
May 24, 2007

and

Information Statement
(including appended
2006 Financial Statements)

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PPL ELECTRIC UTILITIES CORPORATION
Two North Ninth Street
Allentown, Pennsylvania 18101

Notice of Annual Meeting of Shareowners

Time and Date	9:00 a.m., Eastern Daylight Time, on Thursday, May 24, 2007.
Place	Offices of PPL Electric Utilities Corporation Two North Ninth Street Allentown, Pennsylvania
Items of Business	To elect directors
Record Date	You can vote if you are a shareowner of record on February 28, 2007.
Proxy Voting	Proxies are not being solicited from shareowners because a quorum exists for the Annual Meeting based on the PPL Electric Utilities Corporation stock held by its parent, PPL Corporation. PPL Corporation owns all of the outstanding shares of common stock and as a result 99% of the voting shares of PPL Electric Utilities Corporation. PPL Corporation intends to vote all of these shares in favor of the election of PPL Electric Utilities Corporation s nominees as directors.

By Order of the Board of Directors,

Elizabeth Stevens Duane
Secretary

April 30, 2007

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PPL ELECTRIC UTILITIES CORPORATION
Two North Ninth Street
Allentown, Pennsylvania 18101

Information Statement

Annual Meeting of Shareowners
May 24, 2007
9:00 a.m. (Eastern Daylight Time)

We are providing this Information Statement in connection with the Annual Meeting of Shareowners of PPL Electric Utilities Corporation, or the company, to be held on May 24, 2007, and at any adjournment of the Annual Meeting. PPL Corporation, the parent of PPL Electric Utilities Corporation, owns all of the shares of the company s outstanding common stock, which represents 99% of the company s outstanding voting shares. As a result, a quorum exists for the Annual Meeting based on PPL Corporation s stock ownership. **ACCORDINGLY, WE ARE NOT ASKING THE SHAREOWNERS FOR A PROXY, AND SHAREOWNERS ARE REQUESTED NOT TO SEND US A PROXY.** We first released this Information Statement to shareowners on April 30, 2007.

GENERAL INFORMATION

What am I voting on?

There is one proposal scheduled to be voted on at the meeting:

- the election of six directors for a term of one year.

Who can vote?

Holders of PPL Electric Utilities Corporation common stock, 41/2% Preferred Stock and Series Preferred Stock as of the close of business on the record date, February 28, 2007, may vote at the Annual Meeting. Each share of common stock, 41/2% Preferred Stock and Series Preferred Stock is entitled to one vote on each matter properly brought before the Annual Meeting.

What is the difference between holding shares as a shareowner of record and as a beneficial owner?

If your shares are registered directly in your name with PPL Electric Utility Corporation s transfer agent, Wells Fargo Bank, N.A., you are considered, with respect to those shares, the shareowner of record. The Notice of Annual Meeting and Information Statement have been sent directly to you by PPL Electric Utilities Corporation.

If your shares are held in a stock brokerage account or by a bank or other holder of record, you are considered the beneficial owner of shares held in street name. The Notice of Annual Meeting and Information Statement has been forwarded to you by your broker, bank or other holder of record who is considered, with respect to those shares, the shareowner of record.

How do I vote?

You can vote in person at the Annual Meeting. We are not asking shareowners for a proxy by mail. You may come to the Annual Meeting and cast your vote there by ballot. Please bring your admission ticket with you to the Annual Meeting.

Abstentions and broker non-votes are not counted as either yes or no votes.

We do not expect that any other matters will be brought before the Annual Meeting.

Who can attend the Annual Meeting?

If you are a shareowner of record, your admission ticket is enclosed with the Notice of Annual Meeting and Information Statement. You will need to bring your admission ticket, along with picture identification, to the meeting. If you own shares in street name, please bring your most recent brokerage statement, along with

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picture identification, to the meeting. The company will use your brokerage statement to verify your ownership of 41/2% Preferred Stock or Series Preferred Stock and admit you to the meeting.

What constitutes a quorum?

As of the record date of February 28, 2007, there were a total of 66,873,245 shares outstanding and entitled to vote, consisting of 66,368,056 shares of common stock all owned by PPL Corporation, 247,524 shares of 41/2% Preferred Stock and 257,665 shares of Series Preferred Stock. The 2,500,000 outstanding shares of Preference Stock are not entitled to vote. In order to conduct the Annual Meeting, a majority of the outstanding shares entitled to vote must be present in order to constitute a quorum. Abstentions and broker non-votes will be counted as present and entitled to vote for purposes of determining a quorum. A broker non-vote occurs when a broker, bank or other holder of record who holds shares for another person has not received voting instructions from the beneficial owner of the shares and, under New York Stock Exchange, or NYSE, listing standards, does not have discretionary authority to vote on a proposal.

What vote is needed for the directors to be elected?

Shareowners have the unconditional right of cumulative voting. Shareowners may vote in this manner by multiplying the number of shares registered in their respective names on the record date by the total number of directors to be elected at the Annual Meeting and casting all of such votes for one nominee or distributing them among any two or more nominees. The nominees who receive the highest number of votes, up to the number of directors to be elected, will be elected. Authority to vote for any individual nominee can be withheld by striking a line through that person s name in the list of nominees on the ballot. Shares will be voted for the remaining nominees on a pro rata basis.

How does the company keep voter information confidential?

To preserve voter confidentiality, we voluntarily limit access to shareowner voting records to certain designated employees of PPL Services Corporation. These employees sign a confidentiality agreement that prohibits them from disclosing the manner in which a shareowner has voted to any employee of company affiliates or to any other person (except to the Judges of Election or the person in whose name the shares are registered), unless otherwise required by law.

What is householding, and how does it affect me?

Beneficial owners of PPL Electric Utilities Corporation Preferred Stock and Series Preferred Stock held in street name may receive a notice from their broker, bank or other holder of record stating that only one Information Statement and/or other shareowner communications and notices will be delivered to multiple security holders sharing an address. This practice, known as householding, will reduce the company s printing, shipping, and postage costs. If any beneficial owner wants to revoke consent to this practice and wishes to receive his or her own documents and other communications, however, then he or she must contact the broker, bank or other holder of record with a notice of revocation. Any shareowner may obtain a copy of such documents from the company at the address and phone number listed on the back cover page of this Information Statement.

PROPOSAL: ELECTION OF DIRECTORS

The nominees this year are Dean A. Christiansen, David G. DeCampli, Paul A. Farr, Robert J. Grey, James H. Miller and William H. Spence, all of whom are currently serving as directors. The Board of Directors has no reason to believe that any of the nominees will become unavailable for election, but, if any nominee should become unavailable prior to the meeting, PPL Corporation intends to vote its shares of PPL Electric Utilities Corporation common stock

for the election of such other person as the Board of Directors may recommend in place of that nominee. John F. Sipics, who served on the Board and was President of the company, retired on January 1, 2007. John R. Biggar, who also served on the Board and was Executive Vice President and Chief Financial Officer of PPL Corporation, retired on March 31, 2007.

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The Board of Directors
recommends that shareowners vote FOR this Proposal

Nominees for Directors:

DEAN A. CHRISTIANSEN, 47, is Managing Director of Sales and Marketing for Capital Markets Engineering and Trading, LLC (CMET), a New York-based investment banking boutique providing, among other services, structured finance securitization and financial engineering solutions to the capital markets. Prior to joining CMET in August 2004, Mr. Christiansen was the President of Acacia Capital, Inc., a New York City-based corporate finance advisory firm founded in 1990. From October 2000 to July 2003, he also served as President and a Director of Lord Securities Corporation of New York, a financial services and administration company with operations world-wide.
Mr. Christiansen received a degree in government from the University of Notre Dame and has completed additional studies in Aerospace engineering. Mr. Christiansen is also a member of the board of PPL Transition Bond Company, LLC. He has been a director since 2001.

DAVID G. DeCAMPLI, 49, is President of the company. Before being named to his current position in April 2007, Mr. DeCampli served as Senior Vice President-Transmission and Distribution Engineering and Operations since December 2006. Prior to joining the company in December 2006, Mr. DeCampli served in the following positions for Exelon Energy Delivery in Chicago: as Vice President-Asset Investment Strategy and Development from April 2004; as Vice President and Chief Integration Officer from June 2003; as Vice President-Distribution Operations from April 2002; and as Vice President-Merger Implementation & Operations Strategy from October 2000. He also previously held various other engineering and management positions at PECO Energy. Mr. DeCampli earned a bachelor s degree in electrical engineering from Drexel University and a master s in organizational dynamics from the University of Pennsylvania. He has been a director since April 2007.

PAUL A. FARR, 40, is Executive Vice President and Chief Financial Officer of the company s parent, PPL Corporation. Prior to his current position in April of 2007, Mr. Farr was named Senior Vice President-Financial in August 2005, Vice President and Controller in August 2004 and served as Controller until January 2006. Prior to serving in his PPL Corporation positions, Mr. Farr served as Senior Vice President of PPL Global, LLC, a subsidiary of PPL Corporation that owns and operates electricity businesses in Latin America and the United Kingdom, from January 2004, as well as Vice President-International Operations from June 2002 and Vice President since October 2001. Mr. Farr also served for several years as the chief financial officer of PPL Montana, LLC, and in other management positions at PPL Global. Before joining PPL in 1998, Mr. Farr served as international project finance manager at Illinova Generating Company, as international tax manager for Price Waterhouse LLP and as an international tax senior at Arthur Andersen. Mr. Farr earned a bachelor s degree in accounting from Marquette University and a master s degree in management from Purdue University. He is a certified public accountant and also serves on the Boards of PPL Energy Supply, LLC and PPL Transition Bond Company, LLC. Mr. Farr has been a director since April 2007.

ROBERT J. GREY, 56, serves as Senior Vice President, General Counsel and Secretary of the company s parent, PPL Corporation, and is on the board of PPL Energy Supply, LLC. Mr. Grey earned his bachelor s degree from Columbia University, a law degree from Emory University and a Master of Laws degree from George Washington University. Before being named as Senior Vice President, General Counsel and Secretary of PPL and the company in 1996, Mr. Grey served as Vice President, General Counsel and Secretary. Before joining the company in 1995, Mr. Grey served as General Counsel for Long Island Lighting Company and was a partner with the law firm of Preston Gates & Ellis, now known as Kirkpatrick & Lockhart Preston Gates Ellis LLP. He has been a director since 2000.

JAMES H. MILLER, 58, is Chairman, President and Chief Executive Officer of the company s parent, PPL Corporation. Prior to his current position in October of 2006, Mr. Miller was named President and Chief Operating Officer of PPL Corporation in August 2005, Executive Vice President in January 2004, and Chief Operating Officer in September 2004, and also served as President of PPL Generation, LLC, a PPL subsidiary that operates power plants in the United States. He also serves as a director of PPL Corporation and serves on the board of PPL Energy Supply, LLC. Mr. Miller earned a bachelor s degree in electrical engineering from the University of Delaware and served in the U.S. Navy nuclear program. Before joining PPL Generation, LLC in February 2001, Mr. Miller served as Executive Vice President and Vice President, Production of USEC, Inc. from 1995 and prior to that time as President of ABB Environmental Systems, President of UC Operating Services, President of ABB Resource Recovery Systems and in various engineering and management positions at the former Delmarva Power and Light Co. Mr. Miller has been a director since 2001.

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WILLIAM H. SPENCE, 50, is Executive Vice President and Chief Operating Officer of the company s parent, PPL Corporation. Prior to joining PPL in June 2006, Mr. Spence had 19 years of service with Pepco Holdings, Inc. and its heritage companies, Delmarva Power and Conectiv. He served as Senior Vice President of Pepco Holdings from August 2002 and as Senior Vice President of Conectiv Holdings since September 2000. He joined Delmarva Power in 1987 in that company s regulated gas business, where he held various management positions before being named Vice President of Trading in 1996. Mr. Spence also serves on the board of PPL Energy Supply, LLC. Mr. Spence earned a bachelor s degree in petroleum and natural gas engineering from Penn State University and a master s degree in business administration from Bentley College. Mr. Spence has been a director since 2006.

GOVERNANCE OF THE COMPANY

Board of Directors

Attendance. The Board of Directors held one Board meeting and acted by unanimous written consent 18 times during 2006. Each director attended 100% of the meetings held by the Board and its Executive Committee during 2006. Directors are expected to attend all meetings of the Board, its Executive Committee and shareowners. All of our then-serving directors attended the 2006 Annual Meeting of Shareowners.

Communications with the Board. Shareowners or other parties interested in communicating with the Board of Directors may write to the following address:

Board of Directors
c/o Corporate Secretary s Office
PPL Electric Utilities Corporation
Two North Ninth Street
Allentown, Pennsylvania 18101

The Secretary of the company forwards all correspondence to the respective Board members, with the exception of commercial solicitations, advertisements or obvious junk mail. Concerns relating to accounting, internal controls or auditing matters are to be brought immediately to the attention of the company s Office of Business Ethics and Compliance and are handled in accordance with procedures established by the Audit Committee of PPL Corporation with respect to such matters.

Code of Ethics. The company s parent maintains its *Standards of Conduct and Integrity,* which are applicable to all Board members and employees of the company and its subsidiaries, including the principal executive officer, the principal financial officer and the principal accounting officer of the company. You can find the full text of the *Standards* in the Corporate Governance section of PPL Corporation s Web site *(www.pplweb.com/about/corporate+governance.htm). The Standards* are also available in print, without charge, to any shareowner who requests a copy.

Board Committees

The company does not have standing audit, nominating and compensation committees of the Board of Directors.

Executive Committee. During the periods between Board meetings, the Executive Committee s function is to act on behalf of the Board on appropriate matters that do not require full Board approval under the Pennsylvania Business Corporation Law or the company s articles of incorporation and bylaws. This Committee did not meet during 2006 and acted by unanimous written consent once during 2006. The members of the Executive Committee are Mr. Miller

(chair), and Messrs. DeCampli and Farr.

Nominations. The Board of Directors of the company makes the nominations for election of directors for the company and does not have a separate standing nominating committee. As PPL Corporation owns all of the outstanding shares of the company s common stock, which represents 99% of the company s outstanding voting shares, PPL Corporation has a quorum and voting power for the purpose of election of directors of the company, and PPL Corporation recommends to the Board of Directors of the company all of the nominees for directors of the company. Therefore, the Board of Directors of the company acts upon these recommendations and actions of PPL Corporation.

Because the company does not list any common equity securities with the NYSE and is a direct consolidated subsidiary of PPL Corporation, the company is not required to have a majority of independent directors nor an audit committee or audit committee financial expert. Most of the directors nominated are officers of PPL

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Corporation and its subsidiaries, including the company. In addition, because the Amended and Restated Articles of Incorporation require the company to have at all times a director who is independent, the Board of Directors nominates one independent director for election to the Board of Directors, based on the independence requirements set forth in the Amended and Restated Articles of Incorporation. The current independent director, Mr. Christiansen, was chosen by the company s board upon the recommendation of PPL Corporation. Because PPL Corporation controls the vote and the nomination of directors of the company, the company has not recently received any director recommendations from owners of voting preferred stock of the company. Shareowners interested in recommending nominees for directors should submit their recommendations in writing to: Secretary, PPL Electric Utilities Corporation, Two North Ninth Street, Allentown, Pennsylvania 18101. In order to be considered, nominations by shareowners must be received by the company 75 days prior to the 2008 Annual Meeting and must contain the information required by the Bylaws, such as the name and address of the shareowner making the nomination and of the proposed nominees and certain other information concerning the shareowner and the nominee.

In considering the candidates recommended by PPL Corporation, the Board of Directors seeks individuals who possess strong personal and professional ethics, high standards of integrity and values, independence of thought and judgment and who have senior corporate leadership experience, including within PPL Corporation. The company believes that prior business experience is valuable and provides a necessary basis for consideration of the many complicated issues associated with the company s business and the impact of related decisions on PPL Corporation and other shareowners, customers, employees and the general public. In addition, the Board of Directors seeks individuals who have a broad range of demonstrated abilities and accomplishments beyond corporate leadership. These abilities include the skill and expertise sufficient to provide sound and prudent guidance with respect to all of the company s operations and interests. After completing the evaluation process, the Board of Directors votes on whether to approve the nominees. Each nominee to be elected who is named in this Information Statement was recommended by PPL Corporation in accordance with the practices described above.

Compensation Processes and Procedures. The Compensation, Governance and Nominating Committee, or CGNC, of the Board of Directors of the company s parent, PPL Corporation, determines compensation for all officers who are deemed to be executive officers of PPL Corporation. This group includes all of the named executive officers who are included in the Summary Compensation Table on page 25, except for David G. DeCampli before he was named president of the company in April 2007. Specifically, the CGNC has strategic and administrative responsibility for a broad range of issues, including ensuring that executive officers are compensated effectively and in a manner consistent with the company s stated compensation strategy. The CGNC also oversees the administration of executive compensation plans, including the design, performance measures and award opportunities for the executive incentive programs, and certain employee benefits. The CGNC has the authority to make restricted stock, restricted stock unit and option awards of PPL Corporation stock under the PPL Incentive Compensation Plan, or ICP. The Board of Directors of PPL Corporation appoints each member of the CGNC and has determined that each is an independent director.

For those officers of the company who are not deemed to be executive officers of PPL Corporation, including Mr. DeCampli prior to his being named president of the company, compensation is recommended by the president of the company to the PPL Corporate Leadership Council, or CLC, which consists of the chief executive officer, chief financial officer, chief operating officer and general counsel of PPL Corporation. In addition to determining salary and cash incentive compensation for such officers, the CLC also has the authority to make restricted stock unit grants and stock option awards of PPL Corporation stock under the PPL Incentive Compensation Plan for Key Employees, or ICPKE. As a result of Mr. DeCampli being elected president of the company on April 1, 2007, the CGNC, rather than the CLC, will determine his compensation going forward.

The CGNC periodically reviews executive officer compensation to ensure that compensation is consistent with PPL Corporation s compensation philosophies, company and personal performance, changes in market practices, and

changes in an individual s responsibilities. At the CGNC s first regular in-person meeting each year, which it holds in January, the CGNC reviews the performance of PPL executive officers and makes awards for the just-completed fiscal year. The CLC performs the same function for other officers.

To assist in its efforts to meet the objectives outlined above, the CGNC has retained Towers Perrin, a nationally known executive compensation and benefits consulting firm, to advise it on a regular basis on executive compensation and benefit programs. Towers Perrin provides additional information to the CGNC so that it can determine whether the executive compensation programs of PPL Corporation and the company are reasonable

and consistent with competitive practices. Representatives of Towers Perrin regularly participate in CGNC meetings and provide advice as to compensation trends and best practices, plan design and peer group comparisons.

Annually, the CGNC requests Towers Perrin to develop an analysis of current competitive compensation practices and levels. This analysis begins with a general review at the committee s July meeting and continues with a detailed analysis of competitive pay levels and practices at its year-end meeting. The CGNC uses this analysis when it assesses performance and considers salary levels and incentive awards at its January meeting following the performance year.

Senior management of PPL Corporation and each of its subsidiaries, including the company, develops the business plan and recommends to the CGNC the related goals for the annual cash incentive program and the strategic goals for the long-term incentive program for the upcoming year, based on industry and market conditions and other factors. All of the incentive and strategic goals are reviewed and approved by the CGNC.

The CGNC has the authority to review and approve annually the compensation structure, including goals and objectives, of the president of the company and other executive officers who are deemed to be executive officers of PPL Corporation and are subject to Section 16 of the Securities Exchange Act of 1934. This group includes all of the executive officers named in this Information Statement with the exception of Mr. DeCampli. The chief executive officer of PPL Corporation reviews with the CGNC his evaluation of the performance and leadership of the executive officers who report directly to him and, with input from the chief operating officer of PPL Corporation, evaluates the presidents of the major business lines who report to the chief operating officer, which includes the president of the company. The CGNC approves the annual compensation, including salary, incentive compensation and other remuneration of such executive officers. The CLC approves the annual compensation of the other officers.

Compensation of Directors

Directors who are employees of the company or its affiliates do not receive any separate compensation for service on the Board of Directors or its Executive Committee. The company pays Lord Securities Corporation an annual fee of $7,000 for providing the services of its independent director, Dean A. Christiansen.

STOCK OWNERSHIP

As noted above, all of the outstanding shares of common stock of the company are owned by PPL Corporation. No directors or executive officers of the company own any PPL Electric Utilities Corporation preferred, series preferred or preference stock.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

To our knowledge, our directors and executive officers met all filing requirements under Section 16(a) of the Securities Exchange Act of 1934 during 2006.

TRANSACTIONS WITH RELATED PERSONS

The Board of Directors of the company s parent, PPL Corporation, adopted a written related-person transaction policy in January 2007 to recognize the process its Board will use in identifying potential conflicts of interest arising out of financial transactions, arrangements or relations between PPL Corporation or its subsidiaries (including the company) and any related persons. This policy applies to any transaction or series of transactions in which PPL Corporation or a subsidiary is a participant, the amount exceeds $120,000 and a related person has a direct or indirect material interest. A related person includes not only the company s directors and executive officers, but others related to them by certain family relationships, as well as shareowners who own more than 5% of any class of PPL Corporation s voting

securities.

Under the policy, each related-person transaction must be reviewed and approved or ratified by the disinterested independent members of the Board of PPL Corporation, other than any employment relationship or transaction involving an executive officer and any related compensation, which must be approved by the CGNC.
PPL Corporation collects information about potential related-person transactions in annual questionnaires completed by directors and executive officers, including those of the company. PPL Corporation also reviews any payments made by PPL Corporation or its subsidiaries (including the company) to each director and executive officer and their immediate family members, and to or from those companies that either employ a director or an

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immediate family member of any director or executive officer. PPL Corporation s Office of General Counsel determines whether a transaction requires review by the Board of PPL Corporation or the CGNC. Transactions that fall within the definition of the policy are reported to the Board of PPL Corporation or the CGNC. The disinterested independent members of the Board of PPL Corporation, or the CGNC, as applicable, reviews and considers the relevant facts and circumstances and determines whether to approve, deny or ratify the related-person transaction. Since January 1, 2006, except for compensation for executive officers that has been approved by the CGNC, there have been no related-person transactions that were required either to be approved under the policy or reported under the Securities and Exchange Commission, or SEC, related-person transaction rules.

EXECUTIVE COMPENSATION

Compensation Committee Report

The Board of Directors has reviewed the following Compensation Discussion and Analysis and discussed it with management. Based on its review and discussions with management, the Board authorized the Compensation Discussion and Analysis to be incorporated by reference into the company s Annual Report on Form 10-K for 2006 and included in this Information Statement.

Board of Directors

Dean A. Christiansen

David G. DeCampli
Paul A. Farr
Robert J. Grey
James H. Miller
William H. Spence

Compensation Discussion and Analysis (CD&A)

The named executive officers who are included in the Summary Compensation Table on page 25 participate in the executive compensation program offered to officers of the major operating subsidiaries of PPL Corporation as well as the officers of PPL Corporation. Three of the named executive officers, Paul A. Farr, James E. Abel and J. Matt Simmons, Jr., are not paid separately as officers of the company but are employees of PPL Services Corporation, an affiliate of the company. John F. Sipics was an employee of the company prior to his retirement on January 1, 2007, and David G. DeCampli is an employee of the company. The company is a participating employer and has adopted all of the executive compensation plans offered by PPL Corporation. Each named executive officer participates in the executive compensation plans for their particular company, but all of the benefits offered and the terms of each plan are the same for all participating companies.

The Compensation, Governance and Nominating Committee of the PPL Corporation Board of Directors, referred to throughout this CD&A as the CGNC, is responsible for overseeing the executive compensation program and approves all executive compensation awards to those officers who are deemed to be executive officers of PPL Corporation. This group includes all of the named executive officers except Mr. DeCampli before he was named president of the company in April 2007. In the case of Mr. DeCampli, the president of the company recommended all compensation awards to the CLC, and the CLC approved his compensation. The Board of Directors of the company concurs with the decisions of the CGNC and CLC.

Objectives of Executive Compensation Program

The executive compensation program of PPL Corporation and its subsidiaries, including the company and referred to throughout this CD&A as PPL, is designed to recruit, retain and motivate executive leadership and align compensation with the company s performance. Since executive officer performance has the potential to affect PPL s profitability, the key elements of PPL s executive compensation program seek to achieve PPL s business goals appropriately by encouraging and retaining leadership excellence and expertise, rewarding executive officers for sustained financial and operating performance, and realizing both short-term and long-term value for shareowners of PPL and the company.

A key component of the program is direct compensation salary and a combination of annual cash and equity incentive awards which is intended to provide an appropriate, competitive level of compensation, to reward

recent performance results and to motivate long-term contributions to achieving PPL s strategic business objectives. PPL evaluates the direct compensation program as a whole and intends to deliver a balance of current cash compensation and stock-based compensation. The program also balances a level of fixed compensation paid regularly salary with incentive compensation that varies with the performance of PPL. The incentive compensation program focuses executive awards on annual and longer-term performance and, for executive officers including the named executive officers in the Summary Compensation Table on page 25, provides the major portion of direct compensation in the form of PPL Corporation stock, ensuring that management and shareowner interests are aligned.

Other elements of the total compensation program provide: the ability of executives to accumulate capital, predominately in the form of equity to align executive interests with those of the shareowners; a level of retirement income; and, in the event of special circumstances like termination of employment in connection with a change in control of PPL Corporation, special severance protection to help ensure executive retention during the change in control process and to ensure executive focus on serving the company and shareowner interests without the distraction of possible job and income loss.

To ensure appropriate alignment with business strategy and objectives and shareowner interests, the CGNC reviews the executive compensation program and each of its components regularly.

Compensation Elements

Our executive compensation program consists of: (1) direct compensation; (2) indirect compensation; and (3) special compensation.

Direct Compensation

Broadly stated, the direct compensation program is intended to reward:

- Expertise and experience through competitive salaries;
- Short-term financial and operational performance through annual cash incentive awards, which are tied to specific, measurable goals;
- Achievement of annual strategic objectives through performance-based PPL Corporation restricted stock and stock unit awards;
- Long-term financial and operational performance through performance-based PPL Corporation restricted stock or stock unit awards; and
- Stock price growth through awards of stock options for shares of PPL Corporation common stock.

The direct compensation program includes salary, an annual cash incentive award and long-term incentive awards. Long-term incentive awards are granted in two forms of equity: restricted stock units and stock options.

In general, the company offers a competitive direct compensation program that is intended to align with companies of similar size and complexity, which are also the companies with which we compete for talent. The CGNC and the company target direct compensation to be generally at the median of the competitive market. Each year, competitive data are developed by the CGNC s compensation consultant, Towers Perrin, based on companies of similar size both in the energy services industry and general industry companies other than energy services or financial services companies. In developing this competitive data, Towers Perrin uses its published compensation surveys (typically

their current-year Executive Compensation Database and Long-Term Incentive Report (approximately 900 corporate participants), Energy Services Industry Executive Compensation Database (approximately 100 corporate participants), and for PPL EnergyPlus, LLC positions, Benchmark Compensation Survey of Energy Trading and Marketing Positions (approximately 65 corporate participants)). When possible and appropriate, analyses are performed to size-adjust the survey data to achieve a closer correlation with the appropriate scope for the applicable PPL business position. The result of this analysis produces a competitive market reference point we refer to as the PPL competitive data, which we believe appropriately reflects the competitive marketplace in which we compete for executive talent.

PPL competitive data are used as a tool for evaluating salary levels as well as to set target incentive levels. For example, salary amounts are determined based on the PPL competitive data provided by the compensation consultant s analysis for a particular position and the PPL Corporation chief executive officer s and CGNC s assessment of the individual s expertise and experience. Total direct compensation in relation to other

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executives, as well as prior year individual performance and performance of the business lines for which the executive is responsible, are also taken into consideration in determining any adjustment by the CGNC or CLC.

In addition to assessing competitive pay levels, Towers Perrin reports to the CGNC each July on recent industry trends and emerging trends they perceive in the energy services industry.

The majority of direct compensation for executive officers consists of incentive compensation that varies with the performance of PPL. A portion of incentive compensation is intended to reward annual or short-term performance; the rest consists of restricted stock units, which are intended to promote medium-term performance, and stock options, which are intended to promote longer-term stock price growth.

Table 1 below illustrates the allocation of direct compensation for the company s executive officers for 2006, which is shown as a percentage of total direct compensation. For example, the salary of the president of the company represents 32.3% of total direct compensation. Incentive compensation annual and long-term represents 67.7% of the president s direct pay, with 51.6% stock-based and linked to long-term financial performance.

TABLE 1

Elements of Compensation as a Percentage of Total Direct Compensation 2006[1]

	Percentage of Total Direct Compensation		
Direct Compensation Element	**President**	**Senior Vice President-Financial**	**Other Executive Officers[2]**
Salary	32.3%	32.3%	41%
Target Annual Cash Incentive Award	16.1%	16.1%	16%
Target Long-term Incentive Awards	51.6%	51.6%	43%

(1) Percentages based on target award levels as a percentage of total direct compensation. Values of restricted stock unit and stock option awards shown in the tables throughout this Information Statement may reflect compensation expense recognized in 2006 for financial reporting purposes, rather than fair market values calculated using the number of shares or options actually awarded. See Tax and Accounting Considerations SFAS 123(R) at the end of this CD&A at page 24 for further details on how equity awards are expensed.

(2) Includes the positions of Treasurer; Vice President and Controller; and Senior Vice President-Transmission and Distribution Engineering and Operations.

Base Salary

The CGNC or CLC sets base salaries to reward expertise and experience. Salaries are not at risk in the sense that, once established annually based on individual, and where applicable, business line performance and market comparisons, they are paid regularly and are not contingent on attainment of specific goals. Executive salaries are adjusted based on the expertise and experience of each executive, prior year individual performance and performance of the business lines for which the executive is responsible. Additionally, the critical need for a particular executive s skill, overall assessment of an executive s pay in relation to others within the company and level of pay relative to the PPL

competitive data are considered in determining an individual s base salary.

Generally, the company seeks to align salaries to the median of the market. Salaries are considered paid competitively if they are within 15% of the PPL competitive data, or within the PPL competitive range for a particular position. For example, if the PPL competitive data for the president position is $380,000, we consider appropriate market compensation for this position as ranging between $323,000 and $437,000, or 15% less than and 15% greater than the market reference point of $380,000.

Changes in base salary affect annual cash incentive awards and equity incentive awards. Because target incentive award levels are set as a percentage of salary, increases in salary also affect annual cash incentive award and equity incentive award opportunities.

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In January of each year, the CGNC reviews base salary levels for all executive officers of PPL Corporation. The CLC determined Mr. DeCampli s base salary after discussing it with the president of the company.

At its meeting on January 26, 2006, the CGNC approved the following base salaries for the named executive officers, except as noted:

TABLE 2

2006 Salary Adjustments by Position

Name and Position	Prior Salary	PPL Competitive Range	2006 Salary	% Change
J. F. Sipics President[1]	$ 325,000	$323,000-$437,000	$ 350,000	7.7%
P. A. Farr Senior Vice President-Financial	350,000	$323,000-$437,000	390,000	11.4%
J. E. Abel Treasurer	250,773	$221,000-$299,000	265,773	6.0%
J. M. Simmons, Jr. Vice President and Controller[2]		$221,000-$299,000	225,000	
D. G. DeCampli[3] Senior Vice President-T&D Engineering and Operations		$221,000-$299,000	265,000	

(1) Mr. Sipics served as president for all of 2006, but retired on January 1, 2007.

(2) Mr. Simmons joined PPL on January 30, 2006 as Vice President and Controller of the company and of the company s parent, PPL Corporation.

(3) Mr. DeCampli joined the company on December 4, 2006 at the salary noted for 2006.

Mr. Sipics salary was increased in 2006 in recognition of his and the company s effective performance in 2005. Overall, PPL Corporation s financial performance goals exceeded expectations and the company achieved 125% of targeted or budgeted performance on its annual incentive goals. In addition, Mr. Sipics was paid low relative to the PPL competitive range and PPL Corporation s chief executive officer recommended, and the CGNC concluded, it was appropriate to move Mr. Sipics further into the PPL competitive range.

The CGNC increased Mr. Farr s salary to reflect effective performance during 2005 in his PPL Corporation position, resulting in a salary just over the middle point of the PPL competitive range. Mr. Farr was considered a potential candidate for the position of chief financial officer of PPL Corporation. Mr. Farr was promoted to Executive Vice President and Chief Financial Officer of PPL Corporation effective April 1, 2007, following the retirement of John R. Biggar.

Mr. Abel s salary was increased based on continuing effective performance in his PPL Corporation position of Vice President-Finance and Treasurer. The CGNC also concluded it was appropriate to move Mr. Abel s salary further into the PPL competitive range.

Annual Cash Incentive Awards

The annual cash incentive award program is designed to reward annual performance compared to business goals established at the beginning of the year. Unlike salary, where payment is a fixed amount paid regularly, this compensation element is at-risk because awards are based on achievement of prescribed business results. Awards may vary from the target award (that is, the result at which payouts would be at 100%) to zero or to the program maximum of 150% of target established for each position.

The CGNC makes annual cash incentive awards under PPL Corporation s shareowner-approved Short-Term Incentive Plan to those executive officers who are deemed to be executive officers of PPL Corporation and are subject to Section 16 of the Securities Exchange Act of 1934. Because Mr. DeCampli was not considered an executive officer of PPL Corporation during 2006, his annual cash incentive award was approved by the CLC. All of the annual cash incentive awards are based on objective corporate financial and operational measures. Specific written performance objectives and business goals are established by management and approved by the

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CGNC during the first quarter of each calendar year. The CGNC establishes target award levels, set as a percentage of salary for each executive, based on a review of the PPL competitive data and an internal comparison of executive positions.

The CGNC set the following target award levels for the positions listed for the 2006 annual cash incentive awards:

TABLE 3

Annual Cash Incentive Targets by Position for 2006

Position	Targets as % of Salary
President	50%
Senior Vice President-Financial	50%
Treasurer; Vice President and Controller; and Senior Vice President T&D Engineering and Operations	40%

The corporate financial goal for 2006, which was a fully diluted earnings per share, or EPS target described in detail below, represented 40% of the total award for business line presidents, including the President of the company as well as the Senior Vice President-T&D Engineering and Operations. EPS represented 60% of the total award for the other executive officers as a result of their positions with PPL Corporation. Various measures make up operational goals, including business-line net income, customer service measures, operation and maintenance expense and capital expenditure amounts, safety and environmental performance, and other measures critical to the success of the business lines.

The following table summarizes the weightings allocated to financial and operational results, by executive officer position, for determining 2006 annual cash incentive awards:

TABLE 4

Annual Cash Incentive Weightings Applied to Financial and Operational Results

Category	President	SVP-Financial	SVP T&D Engineering and Operations	Treasurer and VP & Controller
Financial Results	40%	60%	40%	40%
Operational Results				
PPL Generation		9%		9%
PPL EnergyPlus	10%	9%		9%
PPL Electric Utilities	38%	9%	35%	9%
PPL Gas Utilities	2%		5%	
PPL Global	10%	9%		9%
PPL Energy Services Group		4%		4%
Individual Results	*	*	20%	20%

* Annual cash incentive awards for these executive officers are based on the financial and operational results of PPL for the year and are not further adjusted for individual performance.

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At its January 2007 meeting, the CGNC reviewed 2006 performance results to determine whether the named executive officers had met or exceeded pre-established 2006 performance goals. Annual cash incentive awards are determined as summarized below by multiplying the results for financial and operational measures by the weightings in Table 4 above to determine the total performance result for each position. The total performance result is then multiplied by the target award opportunity as detailed in Table 3 above and then multiplied by salary as of December 31, 2006, the end of the performance period. Mr. DeCampli s award was approved by the CLC and not the CGNC because he was not deemed to be an executive officer of PPL Corporation during 2006.

annual cash incentive award	=	result	×	weights (Table 4)	×	target award % (Table 3)	×	year-end salary (Table 2)

As a result, the CGNC approved, except as noted, the following annual cash incentive awards:

TABLE 5

Annual Cash Incentive Awards for 2006 Performance

Name	Salary Basis for Award	Total Goal Results	2006 Annual Cash Award[(1)]
J. F. Sipics	$ 350,000	118.8%	$ 207,900
P. A. Farr	390,000	131.3%	256,000
J. E. Abel	265,774	127.1%(2)	135,100
J. M. Simmons, Jr.	225,000	129.1%(3)	107,500
D. G. DeCampli	265,000	110.4%(4)	117,000

(1) Total award amounts may differ from the amounts included in the Non-Equity Incentive Award column of the Summary Compensation Table due to amounts exchanged under the Premium Exchange Program, which is described on page 23 of this CD&A under Ownership Guidelines.

(2) Includes individual results achieved at 120% of target performance.

(3) Includes individual results achieved at 130% of target performance.

(4) Assumes 12 months in the position as provided by the terms of Mr. DeCampli s employment offer letter.

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The following Table 6A and Table 6B provide further detail on the goal results underlying the 2006 annual cash incentive awards. Table 6A applies the weights from Table 4 to the various results for Mr. Sipics position as president to produce the total result for award purposes. Table 6B applies the weights for Mr. Farr s award. Messrs. Abel, Simmons and DeCampli s awards apply the weights from Table 4 to the applicable results, including results for individual performance.

TABLE 6A

Annual Cash Incentive Award for President

	Results	Weight	Attainment
PPL Corporation EPS (60% weight)	140.9%	40%	56.4%
Operational:			
PPL EnergyPlus (10% weight)			
EnergyPlus Energy Marketing Center	142.5%	10.0%	14.3%
Utility Operations (9% weight)			
PPL Electric Utilities (95%)	82.0%	38.0%	31.1%
PPL Gas Utilities (5%)	107.2%	2.0%	2.1%
PPL Global (10% weight)			
Global	149.3%	10.0%	14.9%
Total Weight & Attainment		**100.0%**	**118.8%**

TABLE 6B

Annual Cash Incentive Awards for PPL Corporation-level Executive Officers (executive officers other than presidents of major business lines)

	Results	Weight	Attainment
PPL Corporation EPS (60% weight)	140.9%	60%	84.6%
Operational:			
PPL Generation (9% weight)			
Generation East Fossil/Hydro (50%)	95.4%	4.5%	4.3%
Susquehanna (30%)	97.1%	2.7%	2.6%
Generation West Fossil/Hydro (20%)	79.9%	1.8%	1.4%
PPL EnergyPlus (9% weight)			
EnergyPlus Energy Marketing Center	142.5%	9.0%	12.8%
Utility Operations (9% weight)			
PPL Electric Utilities (95%)	82.0%	8.5%	7.0%
PPL Gas Utilities (5%)	107.2%	0.5%	0.5%
PPL Global (9% weight)			
Global	149.3%	9.0%	13.4%
PPL Energy Services Group (4% weight)			
Energy Services (30%)	125.0%	1.2%	1.5%
Synfuels (20%)	101.3%	0.8%	0.8%
Telcom (15%)	142.9%	0.6%	0.9%

PPLSolutions (15%)	94.1%	0.6%	0.6%
Development (20%)	117.9%	0.8%	0.9%
Total Weight & Attainment		**100.0%**	**131.3%**

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As noted above, the total goal results are based on a blend of corporate, financial and operational results. The financial and operational goals are based on PPL s business plan. The financial goals are set to meet management s objectives and financial market expectations, and the operational goals are established to support financial results for both the short and longer term.

Generally, the company expects awards, in the aggregate, to range from 90% to 110% of target. Awards may range from zero to 150% of target, although attainment at the maximum award level is not expected. Awards for the positions of the named executive officers over the last five years have ranged from 101.3% to 131.3% of target.

Financial Results. Target EPS of PPL Corporation for the annual cash incentive program was $2.20 per share for 2006, with a 150% payout goal of $2.30 and a 50% payout goal of $2.10. Results below $2.10 would result in a zero payout on this portion of the incentive goal.

The target EPS used for goal purposes is corporate reported earnings of PPL Corporation, net of specific items excluded at the beginning of the year and approved by the CGNC in March 2006. The excluded items for 2006 were:

Any impact from changes in accounting resulting from FASB or SEC determinations that, as of January 31, 2006, were not scheduled to become applicable to current year financial statements, or if the financial statement impact was not determinable based on the issued or proposed guidance.

Costs associated with the refinancing of debt or senior equity securities where refinancing results in a positive net present value.

Asset impairments related to or resulting from a decision to sell assets or discontinue operations where such sale or discontinued operations results in a positive net present value.

Any mark-to-market (MTM) impact on earnings from energy marketing and trading activities. The MTM changes of forward commitments are not reflective of the ultimate profitability of the MTM transactions. The ultimate financial impact of MTM transactions, as well as related transactions that do not receive MTM accounting, are reflected in earnings as contracted products and services are delivered.

The outcome of the legal proceedings relating to a PJM billing dispute at the Federal Energy Regulatory Commission. PJM, or PJM Interconnection, L.L.C., is the independent operator of the electric transmission network for the region in which PPL Electric Utilities Corporation provides transmission service.

After adjusting PPL s reported corporate earnings for the above excluded items, the EPS achieved for purposes of the annual cash incentive program was $2.29 per share, or 140.9% of the target EPS for 2006.

Operational Results. Operating goals are detailed, quantifiable goals set specifically for each business line annually. The operational goals are structured to attain the target EPS of PPL Corporation for the year, while at the same time promoting near-term activities that benefit the operating assets in future years. Because the target EPS is a challenging goal relative to the previous year s target, many of the supporting operational goals require difficult-to-reach elements in order to produce operating results that render the target EPS.

Operating goals in 2006 included the following:

Safety goals are included in all units (limits on Occupational Safety and Health Administration reportable events and motor vehicle accidents).

Gross margin, net income or net operating profit after tax (NOPAT) goals are included in each business line s goals. Gross margin is a goal for PPL Generation and PPL EnergyPlus. Net income is a goal for the delivery companies PPL Electric Utilities and PPL Gas Utilities and PPL Global and our smaller business lines. NOPAT is used by PPL Global. PPL Generation, PPL Electric Utilities and PPL Gas Utilities also have specific operations and maintenance and capital expenditure goals that support their margin or income goals.

Energy marketing and trading goals are also included. PPL EnergyPlus has specific goals pertaining to strategy to grow value extracted from our generation assets, to refine a marketing strategy and to hedge and expand margins in years 2007 and beyond.

- Station generation goals are included for PPL Generation units, including specific equivalent availability, prime time availability and coal plant unplanned outage goals.

- PPL Generation s nuclear unit has a specific goal pertaining to its extended power uprate project and license renewal capital budget.

- PPL Energy Services Group s development unit has goals pertaining to asset growth.

- Environmental compliance goals are determined for the fossil and hydro generating units. Nuclear Regulatory Commission Performance Indicators and Inspector Findings and Institute of Nuclear Power Operations rating goals are determined for the nuclear unit.

- Customer service goals are included for the delivery companies PPL Electric Utilities, PPL Gas Utilities and PPL Global s subsidiaries taking the form of customer satisfaction surveys, interruption limits, lost minute limits and non-storm lost minute measures.

- Community impact goals are included for our fossil and hydro units in the form of a favorable public perception evaluation.

Long-term Incentive Awards (Equity Awards)

PPL grants long-term incentive awards to align the interests of the executive officers with those of PPL s shareowners. Long-term incentive awards for those officers who are deemed executive officers of PPL Corporation are made annually under the PPL Corporation shareowner-approved Incentive Compensation Plan, or ICP. Key employees of PPL companies who are not deemed to be executive officers of PPL Corporation, such as Mr. DeCampli before he was named president of the company, are eligible to receive long-term incentive awards under the PPL Corporation shareowner-approved Incentive Compensation Plan for Key Employees, or ICPKE. The CGNC approves all awards granted under the ICP, and the CLC approves all grants under the ICPKE.

The long-term incentive program is designed to reward mid- and long-term performance and is composed of three awards:

- Restricted stock unit awards for sustained financial and operational performance of PPL;

- Restricted stock unit awards for PPL performance on specific, strategic goals; and

- Stock option awards for stock price growth of PPL Corporation common stock.

General

PPL grants restricted stock unit awards based on the achievement of prescribed business results. Restricted stock unit awards provide executives the right to receive an equivalent number of shares of PPL Corporation common stock after a restriction or holding period. These grants are therefore at-risk because awards may vary from zero to the program maximum of 150% of target. Restricted stock unit awards are also at-risk compensation because the awards are denominated in shares of PPL Corporation stock and are subject to vesting and potential forfeiture, and the ultimate value realized by the executives is directly related to PPL Corporation s stock price performance.

Restricted stock unit awards made in 2007 for 2006 performance have a three-year restriction period, with restrictions scheduled to lapse in 2010. During the restriction period, each restricted stock unit entitles the executive to receive quarterly payments from the executive s employer equal to the quarterly dividends on one share of PPL Corporation stock, thereby recognizing both current income generation and stock price appreciation in line with PPL Corporation shareowners.

PPL also grants stock options. Stock options are granted at an exercise price equal to the market value of PPL Corporation stock on the grant date and will normally not be exercised by the holder if the stock price does not increase after the grant date. As a result, stock option awards are designed to reward executives for increases in PPL Corporation s stock price.

Stock options granted in 2006 become exercisable over three years one-third at the end of each year following grant and are exercisable for ten years from the grant date, subject to earlier expiration following specified periods after termination of employment.

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Under the terms of the ICP and ICPKE, restricted stock units and unvested stock options are forfeited if the executive voluntarily leaves PPL, and are generally vested if the executive retires from PPL prior to the scheduled vesting. However, any stock options granted under the ICP within 12 months prior to an executive officer s retirement date will be forfeited. See Termination Benefits Long-term Incentive Awards for a description of conditions of the provisions and expiration dates applicable to awards.

From time to time, as an additional incentive to encourage and reward an executive s superior performance and service with PPL and to retain key talent, PPL may also grant additional restricted stock under the ICP or ICPKE. In January 2006, the CGNC approved such an additional award to Mr. Farr of 15,400 shares of restricted stock under the ICP. Mr. Farr now has a total of 40,000 shares of restricted stock as part of his retention agreement. See Retention Agreements on page 36 for a description of the terms of Mr. Farr s retention agreement.

Structure of Awards

In order to balance equity-based incentives with underlying medium- and longer-term goals for PPL performance, the CGNC determined that the total value of shares of PPL Corporation stock awarded should be divided equally between restricted stock units and stock options for 2006. The restricted stock unit portion of the long-term incentive program is further split, with 50% of the award tied to sustained financial and operational results and 50% of the award tied to strategic goals. Equity awards are intended to balance incentive pay with performance on specific business goals based on PPL s multi-year business plan.

Target award levels for each component of the long-term incentive program seek to balance executive focus on PPL business goals, to balance the internal compensation levels of executive positions and to reflect the PPL competitive data.

The target award levels for the named executive officers were set by the CGNC as a percentage of salary for 2006 and are provided below:

TABLE 7

Long-term Incentive Award Targets

	Restricted Stock Units (Targets as % of Salary)		Stock Options	
Position	**Sustained Financial and Operational Results**	**Strategic Objective Results**	**Stock Price Performance**	**Total**
President	40.00%	40.00%	80.0%	160%
Senior Vice President Financial	40.00%	40.00%	80.0%	160%
Treasurer; Vice President and Controller; and Senior Vice President T&D Engineering and Operations	26.25%	26.25%	52.5%	105%

A restricted stock unit award is made by the CGNC (or the CLC as to Mr. DeCampli) after the end of each year, based on the most recent three-year average results of the annual cash incentive program:

$$\text{number of units granted} = \text{target award \%} \times \text{salary} \times \text{3-year average result} \div \text{market price of PPL stock as of award date}$$

This award is designed to reward sustained financial and operational performance of PPL.

A second restricted stock unit award is made after the end of each year based on the achievement level of annually determined, objective strategic goals developed by the company and approved by the CGNC (or the CLC as to Mr. DeCampli):

$$\text{number of units granted} = \text{target award \%} \times \text{salary} \times \text{goal result} \div \text{market price of PPL stock as of award date}$$

This award is designed to reward actions that drive achievement of PPL s strategic objectives.

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The strategic goals for 2006 included the following:

Influence the evolution of federal and state policies:

Toward more competitive markets

Toward use of prices to send economically efficient capital allocation signals

Toward permitting generators greater latitude to bid into energy markets

Toward permitting transmission owners greater latitude in selection of an independent system operator or regional transmission operator to operate the transmission owner s system

Away from price caps

Away from excessive market power mitigation initiatives

Internally structure PPL:

To position the energy marketing and trading organization to take advantage of opportunities presented by the expiration of the provider of last resort (POLR) contract

To develop and retain the management and technical skills and the financial profile necessary to permit continued growth

Implement necessary actions to position PPL to successfully benefit from the expiration of the current Pennsylvania generation price cap.

A grant of stock options is made each year at each executive s target award level:

number of options granted	=	target award %	×	salary	÷	option value as of award date

The value of the long-term incentive awards as of the grant date, based on the targets, delivers a level of compensation intended to pay executive officers at a level that compares to the median of the PPL competitive data. The ultimate value of long-term incentive awards to executives is tied to the future value of PPL Corporation s total shareowner return stock price growth and dividends. To the extent total shareowner value increases, executives may realize values that exceed the values as determined on the grant date. Similarly, should shareowner value deteriorate, executive compensation levels for these awards could fall below the grant values, possibly to zero.

Awards for 2006

At its meeting in January 2007, the CGNC reviewed and certified the performance results for the 2006 cash incentive compensation award. These results impact the long-term incentive program as follows:

Restricted stock unit award for sustained financial and operational results: the 2006 annual cash incentive results for executives were averaged with similar results for 2005 and 2004 and formed the basis for the 2007 award. The total results were 120.5%; which represent the average of 2006 (131.3%), 2005 (109.9%) and 2004 (120.4%).

Restricted stock unit award for strategic goal attainment: goal attained at 100%.

At its meeting in January 2007, the CGNC approved restricted stock unit awards for 2006 performance (the CLC for Mr. DeCampli), and at its January 2006 meeting approved stock option awards for 2006. These awards are set forth in the table below. The cost of the stock option awards expensed in 2006 is included in the Summary Compensation Table. However, because the restricted stock unit awards for 2006 performance were not expensed until granted in January 2007, any amount expensed will not be included until next year s Summary Compensation Table. The restricted stock unit awards reflected in this year s Summary Compensation Table show the expense for the awards made in January 2006 for 2005 performance. Such awards were also included and discussed in last year s information statement as to Messrs. Sipics, Farr and Abel. See Tax and Accounting Considerations SFAS 123(R) at the end of this CD&A at page 24 for further details on how equity awards are expensed.

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TABLE 8

Long-Term Incentive Awards for 2006

Name	Restricted Stock Units (Awards in Dollars)		Stock Options
	Sustained Financial and Operational Results	Strategic Objective Results	Stock Price Performance
J. F. Sipics	$ 168,747	$ 140,000	$ 260,000
P. A. Farr	188,032	156,000	280,000
J. E. Abel	84,091	69,766	131,656
J. M. Simmons, Jr.[(1)]	65,088	54,000	118,125
D. G. DeCampli[(2)]	83,800	69,600	139,900

(1) Mr. Simmons restricted stock unit awards are based on 11 months of actual service as the Vice President and Controller of PPL Corporation.

(2) Mr. DeCampli s restricted stock unit awards assume 12 months in the position as provided by the terms of his employment offer letter. Because Mr. DeCampli was not deemed to be an executive officer of PPL Corporation during 2006, his restricted stock unit and stock option awards were approved by the CLC and not the CGNC.

Changes to Target Award Levels for 2007

At its January 2007 meeting, the CGNC amended the long-term incentive targets for 2007. In addition, the CGNC decided to rebalance the value of restricted stock units as compared with stock options to 65% restricted stock units and 35% options, from the prior 50%-50% mix. Both decisions were based on changes noted in market practice and, in the case of the mix of long-term awards, on the CGNC s view that stock options should receive less weight. The revised targets are reflected below:

TABLE 9

Long-term Incentive Award Targets for 2007

Position	Restricted Stock Units (Targets as % of Salary)		Stock Options	
	Sustained Financial and Operational Results	Strategic Objective Results	Stock Price Performance	Total
President	47%	47%	50.75%	145%
Senior Vice President-Financial*	52%	52%	56.00%	160%
	34%	34%	37.00%	145%

Treasurer; Vice President and Controller; and
Senior Vice President T&D Engineering and
Operations

* As of April 1, 2007, Mr. Farr s long-term incentive award targets for 2007 became those of the chief financial officer of PPL Corporation (71.5% for each restricted stock unit target, 77% for the stock options, with a total target of 220%).

Perquisites and Other Benefits

Officers of the company, including the named executive officers, are eligible for company-paid financial planning services. These services include financial planning, tax preparation support and a one-time payment for estate documentation preparation. These services are provided in recognition of time constraints on busy executives and their more complex compensation program that requires professional financial and tax planning. We believe that good financial planning by experts reduces the amount of time and attention that executive officers must spend on such issues and maximizes the net financial reward to the employee of compensation received from

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the company. Such planning also helps ensure that the objectives of our compensation programs are met and not frustrated by unexpected tax or other consequences.

PPL also provides relocation benefits to newly hired employees, including executive officers, when their primary residence changes a substantial distance from their previous employment. PPL relocation benefits include a cash allowance for house hunting, temporary living expenses, day of moving expenses, and miscellaneous expenses. The relocation benefits also include assistance with: (1) the sale of the executive s residence, including closing costs and an equity advance option to assist with the purchase of a new home; (2) home purchase assistance, including closing costs; (3) moving expenses; and (4) a tax-gross-up payment to offset the impact of the relocation benefits that are taxable.

The value of all perquisites for 2006 is summarized in Note 7 to the Summary Compensation Table.

Indirect Compensation

Officers of the company, including the named executive officers, participate in benefit programs offered to all company employees. In addition, officers are eligible for the executive benefit plans described below.

The company s retirement income benefits are designed to provide a competitive level of income replacement in retirement for career executives. The primary retirement income program for executives consists of two plans the PPL Supplemental Executive Retirement Plan, or SERP, a nonqualified defined benefit pension plan available for officers of the company, and the PPL Retirement Plan, a tax-qualified, defined benefit pension plan available to employees of the company generally. The company, as well as other PPL companies, is a participating employer in these two plans.

PPL has established a retirement income target for the SERP and PPL Retirement Plan for executives at 55% of pay (defined as five-year average total cash compensation) for a career employee with 30 years of service. Additional details on these plans are provided under Retirement Benefits.

The company believes that its SERP benefits are competitive relative to companies with which it competes for talent and are necessary to retain executives and to recruit new executives to join the company.

The primary capital accumulation opportunities for executives are: (1) stock gains under PPL s long-term incentive program and employee stock ownership plan; and (2) voluntary savings opportunities that, for 2006, included savings through a tax-qualified employee savings plan, which is a 401(k) plan (PPL Deferred Savings Plan), and the Officers Deferred Compensation Plan, which is a nonqualified deferred compensation arrangement.

Under the PPL Deferred Savings Plan, PPL provides matching cash contributions of 3% of the participating employee s pay (defined as salary plus annual cash incentive award) up to contribution limits imposed by federal tax rules. Participating employees are vested in the PPL matching contributions after one year of service. This plan provides a selection of core investment options, including publicly available mutual funds, institutionally managed funds, including the Stable Value Fund managed by Fidelity Investments during 2006, and lifestyle funds available from a mutual fund provider (for 2006, the lifestyle funds were Fidelity Investments Freedom Funds). The plan investment options also include a brokerage account option that allows participants to select from a broad range of publicly available mutual funds, including those of the plan trustee as well as competitor funds. Participants may request distribution of their accounts at any time following termination of employment.

PPL s Officers Deferred Compensation Plan permits participants to defer all but $75,000 of their base salary and up to all of their annual cash incentive awards. A hypothetical account is established for each participant who elects to defer, and the participant selects one or more deemed investment choices that generally mirror those that are available

generally to employees under the PPL Deferred Savings Plan. For additional details on the Officers Deferred Compensation Plan, see Executive Compensation Tables Nonqualified Deferred Compensation in 2006 table on page 34. Neither PPL nor the company made any matching contributions under this plan in 2006. Beginning in 2007, matching contributions will be made under this plan on behalf of participating officers to make up for matching contributions that would have been made on behalf of such officers under the PPL Deferred Savings Plan but for the imposition of certain maximum statutory limits imposed on qualified plan benefits (for example, annual limits on eligible pay and contributions). Executive officers who reach the maximum limits in the PPL Deferred Savings Plan are generally eligible for matching contributions under this plan. There is no vesting requirement for the PPL matching contributions. Retirement benefits and capital

accumulation contributions under the Officers Deferred Compensation Plan are not affected by any long-term incentive or equity awards.

PPL has a tax-qualified employee stock ownership plan, the PPL Employee Stock Ownership Plan or ESOP, to which PPL makes an annual contribution. Historically, PPL has contributed a dollar amount to the ESOP that is equal to the tax benefit it receives for a tax deduction on dividends paid on PPL Corporation common stock held by the trustee of the ESOP. Contributions are then allocated among the ESOP participants based on the following two measures: (1) the amount of total dividends paid on the participant s account; and (2) a pro rata amount based on salary up to a median salary amount. The total allocation cannot exceed 5% of a participant s compensation. The ESOP trustee invests exclusively in PPL Corporation common stock. All named executive officers participate in the ESOP, as well as employees of PPL s major business lines. Shares held for a minimum of 36 months are available for withdrawal, and participants may request distribution of their account at any time following termination of employment. There is no vesting period for contributions made under the ESOP. The participant has the option of receiving the actual shares of common stock or the cash equivalent of such shares.

Special Compensation

In addition to the annual direct and indirect compensation described above, PPL provides special compensation in response to specific situations.

Hiring and Retention. As part of the executive recruiting process, the company makes offers of employment to new executive candidates to attract talent to the company and to compensate these candidates for compensation they may lose when terminating employment with their prior employer.

Generally, annual compensation for new executive officers is consistent with that of current executives in similar positions. Incentive awards for the year of hire are generally prorated for the period of service during the executive s initial year of employment and made after the close of the year, when awards are made for other executives. Annual, long-term incentive awards are not typically granted upon hire; however, one-time awards may be made in cash or in restricted stock or units to replace value a new executive may be losing from a former employer or as part of a sign-on award to encourage an executive to join the company.

In limited circumstances, generally involving mid-career hires, PPL enters into retention agreements with key executives to encourage their long-term employment with PPL. These agreements typically involve the grant of restricted stock on which the restrictions lapse upon the attainment of age 60, but may vary on a case-by-case basis. During the term of the restrictions, the executive receives dividends. The intention is to retain key executives for the long term and to focus the executive s attention on stock price growth during the retention period.

Individual awards vary based on an executive s level, company service and the need for retention and/or the market demand for an executive s talent. The amount of an award is typically a multiple of salary converted to restricted stock as of the grant date. For specific details on retention agreements that are outstanding for named executive officers, see Retention Agreements on page 36.

Severance. The company has not entered into traditional employment agreements with executives, including the named executive officers. There are no specific agreements pertaining to length of employment that would commit the company to pay an executive for a specific period. All executives are employees-at-will whose employment is conditioned on performance and subject to termination by the company or a PPL affiliate at any time.

The company does not maintain a general severance policy for executives. Separation benefits are determined, as needed, on a case-by-case basis. However, as discussed below, there is a structured approach to separation benefits for

involuntary (and select voluntary or good reason as defined in Change-in-Control Arrangements below at page 34) terminations of employment in connection with a change in control of PPL Corporation.

The company, or a PPL affiliate, has entered into agreements with certain executives, typically in connection with a mid-career hire situation and as part of an offer of employment, in which a year s salary is promised in severance pay in the event the executive is terminated for reasons other than cause. In addition to severance pay, in some instances the company, or a PPL affiliate, will continue active employee health, dental and basic life insurance benefits during the severance period. Severance benefits payable under these arrangements are conditioned on the executive agreeing to release the company from any liability arising from the employment

relationship. Additional details on current arrangements for named executive officers are discussed under Termination Benefits below at page 36.

Change-in-Control Protections. PPL believes executive officers who are terminated or elect to resign for good reason (as defined in Change-in-Control Arrangements below at page 34) in connection with a change in control of PPL Corporation should be provided separation benefits. These benefits are intended to ensure that executives focus on serving PPL and shareowner interests without the distraction of possible job and income loss.

The major components of PPL s change-in-control protections are:

- accelerated vesting of outstanding equity awards in order to protect executives equity-based accrued value from an unfriendly acquirer;
- severance benefits; and
- trusts to fund promised obligations in order to protect executive compensation from an unfriendly acquirer.

PPL s change-in-control benefits are consistent with the practices of companies with whom PPL competes for talent and assist in retaining executives and recruiting new executives to the company.

Accelerated Vesting of Equity Awards. As of the close of a transaction that results in a change in control of PPL Corporation, all outstanding equity grants awarded as part of PPL s compensation program (excluding restricted stock and restricted stock units issued pursuant to retention agreements) become available to executives. As a result, stock awards granted as part of the long-term incentive program accelerate in other words, restrictions on all outstanding restricted stock units lapse and all unexercisable stock options become exercisable. Stock options granted prior to 2007 are exercisable for 36 months following a qualifying termination of employment in connection with a change in control; options granted in 2007 and after are, after a change in control, exercisable for the remaining term of the stock option.

Severance Benefits. PPL Corporation has entered into severance agreements with each of the named executive officers that provide benefits to the executives upon specified terminations of employment in connection with a change in control of PPL Corporation. The benefits provided under these agreements replace any other severance benefits provided to these officers by PPL Corporation, or any prior severance agreement. Additional details on the terms of these severance agreements are described in Change-in-Control Arrangements at page 34.

Rabbi Trust. PPL Corporation has entered into a trust arrangement which currently covers the SERP and the Officers Deferred Compensation Plan and provides that specified trusts are to be funded when a change in control occurs. See Change-in-Control Arrangements at page 34 for a description of change-in-control events.

The trusts would become irrevocable upon the occurrence of a potential change in control and are currently unfunded. As a result of action taken by the PPL Corporation Board of Directors in October 2006, PPL Corporation is in the process of adopting an additional trust for executive benefits to cover the severance agreements and modifying the current trust arrangement to provide for immediate funding of benefits upon the occurrence of a potential change in control and to provide that the trusts can be revoked and the contributions returned if a change in control in fact does not occur. The new trust arrangement would have the same funding and revocation with refund provisions as the modifications made to the existing trust arrangement. There are no current plans to fund any of the trusts.

All benefit protection trusts would be funded in the event of a change in control.

Timing of Awards

The CGNC determines the timing of incentive awards for those officers who are deemed to be executive officers of PPL Corporation. During 2006, all named executive officers were considered to be executive officers of PPL Corporation except for Mr. DeCampli. As a result of his election as president of the company on April 1, 2007, Mr. DeCampli is now deemed to be an executive officer of PPL Corporation.

Incentive awards for executive officers, including annual cash incentive awards and long-term incentive awards, are made as soon as practical following the performance period. It has been PPL s long-time practice to make

annual cash incentive awards and stock-based grants at the January CGNC meeting, which occurs the day before the January PPL Corporation Board of Directors meeting on the fourth Friday of January.

PPL does not have, nor does PPL plan to have, any program, plan or practice to time equity grants with the release of material non-public information other than the practice of making such awards annually and regularly at the January CGNC meeting.

Off-cycle restricted stock or restricted stock unit grants, if provided to newly hired executives as part of the hiring package, are made from time to time, normally as of the new executive s hiring date. Prices for such stock awards are determined as of the day of hire or, if later, the day the CGNC approves the grant, based on the closing price as of the date of grant. Stock option grants are not otherwise made during the year; stock option awards, including awards for newly hired executives, are made annually at the January CGNC meeting.

For awards made in 2006, the market price for restricted equity award grants was the average of the high and the low price of PPL Corporation common stock on the date of grant. The market price for shares issued when the restrictions lapse is determined as the average of the high and low price on the date the restrictions expire. The exercise prices for stock option awards are determined as the average of the high and low price on the day of the grant. The CGNC approved an amendment to the ICP and the ICPKE, effective January 1, 2007, to provide for the market price of grants made after that date is now equal to the closing price, rather than the average of the high and the low price.

Restricted stock and stock option grants to eligible employees other than executive officers of PPL Corporation, including Mr. DeCampli, are made on March 1, as part of PPL s annual salary review process, which is usually conducted in January and February each year. Employee salary adjustments and annual cash incentive award payments are made in the first paycheck in March.

The CGNC approved Mr. Abel s 2006 restricted stock unit grant for Premium Units under the Premium Exchange Program as of March 1, 2006. Mr. Abel had previously elected to exchange a portion of his 2005 annual cash incentive award and was awarded Premium Units. The CLC approved Mr. Abel s 2005 annual cash incentive award (his 2006 award was approved by the CGNC due to a change in practice) and approved, with CGNC delegated authority, the exchange at its meeting in February 2006. Awards for Mr. DeCampli, before he was named president of the company, were approved by the CLC.

Employee restricted stock unit awards are also made as of March 1 of every year. The number of stock units granted to eligible employees is determined as the employee s target percentage times salary divided by the PPL Corporation stock market price (determined the same as for executive officer awards). Stock options granted to employees other than executive officers of PPL Corporation, including Mr. DeCampli, are granted at the same time and same exercise price as determined for executive officers.

Ownership Guidelines

Meaningful ownership of PPL Corporation common stock by executive officers has always been an important part of PPL s compensation philosophy. In 2003, the CGNC adopted specific ownership requirements under the Executive Equity Ownership Program (Equity Guidelines). The Equity Guidelines provide that named executive officers should maintain levels of ownership of PPL Corporation common stock ranging in value from one times to five times base salary, as follows during 2006:

	Multiple of Base

Executive Officer	Salary
Chairman, President and CEO of PPL Corporation	5x
Executive Vice Presidents of PPL Corporation	3x
Senior Vice Presidents of PPL Corporation (including Mr. Farr)	2x
Presidents of major operating subsidiaries (including Mr. Sipics)	2x
Vice Presidents of PPL companies (including Messrs. Abel, Simmons and DeCampli)	1x

Executive officers at a particular guideline level must attain their minimum Equity Guidelines level by the end of their five-year anniversary at that level. Until the minimum ownership amount is achieved, executive officers are required to retain in PPL Corporation common stock (or common stock units) 100% of the gain realized from the vesting of restricted stock and stock units and the exercise of options (net of taxes and, in the case of options,

the exercise price). If an executive does not attain the guideline level within the applicable period, annual cash incentives awarded after that date may be in restricted stock/unit grants (without a premium) until actual ownership meets or exceeds the guideline level.

To assist executive officers in achieving or surpassing their minimum ownership amount, the CGNC adopted the Cash Incentive Premium Exchange Program (Premium Exchange Program). Under this program, executives may elect to defer all or a portion of the annual cash incentive award to which they would be otherwise entitled and to receive instead restricted stock units equal to 140% of the amount so deferred (an Exchange). The restricted stock units are subject to a three-year vesting period, with only the 40% premium portion subject to forfeiture during the restriction period. Executive officers forfeit the premium amount if they terminate employment during the restriction period. A pro rata portion of the premium is payable for executive officers who retire after attaining age 60. The full premium is payable if employment is terminated during the restriction period due to the death or disability of the executive officer. The full premium is also payable in connection with a change in control of PPL Corporation.

The Equity Guidelines and the Premium Exchange Program encourage increased stock ownership on the part of the executive officers, which further aligns the interests of management and shareowners. All named executive officers were in compliance with the Equity Guidelines as of the end of 2006.

Tax and Accounting Considerations

Section 162(m). Section 162(m) of the Internal Revenue Code of 1986 generally provides that publicly held corporations may not deduct in any taxable year specified compensation in excess of $1,000,000 paid to the chief executive officer and the next four most highly compensated executive officers. Performance-based compensation in excess of $1,000,000 is deductible if specified criteria are met, including shareowner approval of applicable plans. In this regard, the PPL Corporation Short-term Incentive Plan is designed to enable PPL to make cash awards to officers that are deductible under Section 162(m). Similarly, the ICP and ICPKE enable PPL to make stock option awards that are deductible under Section 162(m). Restricted stock awards granted based on sustained financial and operational results may also qualify as performance-based compensation under the terms of Section 162(m). The CGNC generally seeks ways to limit the impact of Section 162(m). However, the committee believes that the tax deduction limitation should not compromise PPL s ability to establish and implement incentive programs that support the compensation objectives discussed above. Accordingly, achieving these objectives and maintaining required flexibility in this regard may result in compensation that is not deductible for federal income tax purposes.

Sections 280G and 4999. PPL Corporation has entered into separation agreements with each of the named executive officers that provide benefits to the executives upon certain terminations of employment in connection with a change in control of PPL Corporation. The agreements with Messrs. Sipics, Farr and DeCampli provide for tax protection in the form of a gross-up payment to reimburse the executive for any excise tax under Internal Revenue Code Section 4999 as well as any additional income and employment taxes resulting from such reimbursement. Code Section 4999 imposes a 20% non-deductible excise tax on the recipient of an excess parachute payment, and Code Section 280G disallows the tax deduction to the payor of any amount of an excess parachute payment. Payments as a result of a change in control must exceed three times the executive s average annual compensation for tax purposes in order to be considered excess parachute payments, and then the excise tax is imposed on the parachute payments that are in excess of such amount. The intent of the tax gross-up is to provide a benefit without a tax penalty to PPL executives who are displaced in the event of a change in control. PPL believes the provision of tax protection for the adverse tax consequences imposed on the executive under these rules is consistent with market practice, is an important executive retention component of PPL s program and is consistent with PPL s compensation objectives. The separation agreements for Messrs. Abel and Simmons do not provide for any gross-up payments, but they do permit PPL Corporation to adjust any payments to be made to them so that the severance payments will be reduced, to the extent necessary, so that the severance payments, together with all other potential parachute payments to the

executive, will not trigger an excise tax, unless paying the full severance benefits would result in a greater net after-tax benefit to the executive.

Section 409A. The CGNC also considers the impact of Section 409A on PPL s compensation programs. Section 409A of the Internal Revenue Code was enacted as part of the American Jobs Creation Act of 2004 and substantially impacts the federal income tax rules applicable to nonqualified deferred compensation arrangements, as defined. In general, Section 409A governs when elections for deferrals of compensation may

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be made, the form and timing permitted for payment of such deferred amounts, and the ability to change the form and timing of payments initially established. Section 409A imposes sanctions for failure to comply, including current income inclusion, a 20% penalty tax and interest on the recipient employee. PPL and the company operate their covered arrangements in a manner intended to avoid the adverse tax treatment under Section 409A. Certain amendments have already been made to the covered arrangements in this regard, and it is likely that PPL and the company will make additional amendments to their covered arrangements as future guidance is issued.

SFAS 123(R). In December 2004, the Financial Accounting Standard Board issued SFAS 123 (revised 2004), Share-Based Payment, which is known as SFAS 123(R)and prescribes the accounting for all stock-based awards. PPL Corporation adopted SFAS 123(R) effective January 1, 2006. SFAS 123(R) requires PPL to recognize compensation cost for stock-based awards using a fair value method. PPL Corporation uses the market price of its common stock at the date of grant to value its restricted stock and restricted stock unit awards and uses the Black-Scholes stock option pricing model to determine the fair value of its stock option awards. The adoption of SFAS 123(R) did not have a significant impact on the accounting for PPL Corporation s stock-based awards, as PPL Corporation began expensing stock options on January 1, 2003 under the fair value method and the expense recognition for restricted stock and restricted stock units was not significantly changed.

For additional information on PPL s accounting methods and assumptions for stock-based awards, refer to Notes 1, 12 and 23 of the company s financial statements in the Annual Report on Form 10-K for the year ended December 31, 2006, as filed with the SEC.

PPL s stock-based compensation plans allow for accelerated vesting upon an employee s retirement. As a result, PPL recognizes the expense immediately for employees who are retirement eligible when stock-based awards are granted. For employees who are not retirement eligible when stock-based awards are granted, PPL amortizes the awards on a straight-line basis over the shorter of the vesting period or the period up to the employee s attainment of retirement age. PPL considers retirement eligible as the early retirement age of 55.

Because the SEC requires that the value of stock-based awards that are included in the tables throughout this Information Statement be based on SFAS 123(R)expense recognition, and because of the accelerated vesting that is based on an employee s age as described above, amounts disclosed in these tables will differ from amounts calculated for compensation purposes and described in this CD&A.

In addition, because the restricted stock unit awards granted for 2006 performance were not granted until January 2007, any expense for these awards will be reflected in next year s and not this year s Summary Compensation Table or Grants of Plan-Based Awards table and will not tie directly to the values determined by PPL s compensation grant methodology. For example, the restrictions on an annual grant of restricted stock units lapse after three years. The grant value is determined using the methodology described as of the award date. Under SFAS 123(R), the grant is accounted for as an expense over the period of time the restrictions are in place. Therefore, only a portion of the annual grant value is expensed in the grant year. Even though the grant is for 2006 performance, because it was granted in January 2007, the expensed amount will not appear in the Summary Compensation Table until next year. Also expensed in the grant year is a portion of prior grants on which restrictions have not lapsed. If the executive officer who receives the award is age 55 or older, 100% of the award is expensed in the year of the grant because the officer is eligible for retirement.

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Executive Compensation Tables

The following table summarizes all compensation for the company s president, our principal financial officer and our next three most highly compensated executive officers for the last fiscal year or named executive officers. Messrs. Farr, Abel and Simmons are not paid separately as officers of the company, but are employees of PPL Services Corporation. Mr. Simmons joined PPL on January 30, 2006, at which time Mr. Farr resigned as Controller. Mr. DeCampli joined the company on December 4, 2006. Mr. Sipics retired on January 1, 2007, and Mr. DeCampli was subsequently named president of the company on April 1, 2007. Restricted stock awards and stock options are for shares of PPL Corporation common stock.

SUMMARY COMPENSATION TABLE

ncipal	Year	Salary[1]	Bonus[2]	Stock Awards[3]	Option Awards[4]	Non-Equity Incentive Plan Compensation[5]	Change in Pension Value and Nonqualified Deferred Compensation Earnings[6]	All Other Compensation[7]
	2006	$349,040		$355,593	$279,304	$207,900	$1,144,680	$23,655
	2006	388,462		265,027	209,167	256,000	76,291	10,063
ncial	2006	263,466		152,819	141,426	135,100	206,408	8,465
ns, Jr. and	2006	199,040	$ 100,000	38,402	38,773	107,500	24,886	171,434
mpli smission n d	2006	10,192	225,000	5,546		117,000		24,699

(1) Salary includes cash compensation deferred to the PPL Corporation Officers Deferred Compensation Plan. Mr. Farr deferred $30,831 of salary.

(2) Reflects one-time cash sign-on bonuses for Mr. Simmons when he joined PPL Corporation as Vice President and Controller on January 30, 2006, and for Mr. DeCampli when he joined the company on December 4, 2006.

(3) This column represents the compensation expense recognized in 2006 for financial statement reporting purposes on all outstanding shares of restricted stock and restricted stock units in accordance with SFAS 123(R), other than restricted stock unit awards granted in lieu of the annual cash incentive award foregone by the named executive officer. See Note 5 below. Pursuant to SEC rules, the amounts shown exclude the impact of estimated forfeitures related to service-based vesting conditions. No forfeitures of restricted stock or restricted stock units actually occurred during 2006. Because Messrs. Sipics and Abel were eligible for retirement during 2006, the fair value of their awards has been fully expensed. This column also includes the value of the premium restricted stock units granted in January 2006 and the restricted stock units granted as part of the exchanges made by Messrs. Sipics, Farr and Abel of their cash incentive compensation awarded in January 2007 for 2006 performance under the Premium Exchange Program. See description of the Premium Exchange Program in CD&A Ownership Guidelines. For shares of restricted stock and restricted stock units granted in 2006 and earlier years, fair value is calculated using the average of the high and low sale prices of PPL Corporation s common stock on the date of grant. For additional information, refer to Note 12 to the company s financial statements in the Annual Report on Form 10-K for the year ended December 31, 2006, as filed with the SEC. See the Grants of Plan-Based Awards During 2006 table below for information on awards made in 2006. These amounts reflect the company s accounting expense for these restricted stock and restricted stock unit awards, and do not correspond to the actual value that will be recognized by the named executive officers.

(4) This column represents the dollar amount recognized for financial statement reporting purposes with respect to the 2006 fiscal year for stock options granted to each of the named executive officers in 2006 as well as prior fiscal years, in accordance with SFAS 123(R). Pursuant to SEC rules, the amounts shown exclude the impact of estimated forfeitures related to service-based vesting conditions. No forfeitures of any stock options actually occurred during 2006. As Messrs. Sipics and Abel were eligible for retirement during 2006, the fair values of their stock option awards have been fully expensed. For additional information on the valuation

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assumptions with respect to the 2006 stock option grants, refer to Note 12 to the company s financial statements in the Annual Report on Form 10-K for the year ended December 31, 2006, as filed with the SEC. For information on the valuation assumptions with respect to option grants made prior to 2006, refer to the Note entitled Stock-Based Compensation in the company s financial statements in the Annual Report on Form 10-K for the respective year-end. See the Grants of Plan-Based Awards During 2006 table for information on options granted in 2006. These amounts reflect the accounting expense for these stock option awards and do not correspond to the actual value that will be recognized by the named executive officers.

(5) This column represents cash awards granted in January 2007 under the Short-term Incentive Plan for performance in 2006. Mr. Farr elected to exchange $166,400 of his cash awarded in January 2007, for 2006 performance, for restricted stock units under the Premium Exchange Program. See description of the Premium Exchange Program in CD&A Ownership Guidelines. The value of this award is included in this column and not in the Stock Awards column. The grant of restricted stock units under the Premium Exchange Program for the cash award foregone by Mr. Farr will be reflected in next year s Grants of Plan-Based Awards table.

(6) This column represents the sum of the changes in value in the Retirement Plan and Supplemental Executive Retirement Plan during 2006 for each of the named executive officers. No change in value is shown for Mr. DeCampli because he was not eligible to participate in these plans until January 1, 2007. See the Pension Benefits in 2006 table on page 31 for additional information. No above-market earnings under the Officers Deferred Compensation Plan are reportable for 2006. See the Nonqualified Deferred Compensation in 2006 table on page 34 for additional information.

(7) The table below reflects the components of this column, which include the company s matching contribution for each individual s 401(k) plan contributions under the Deferred Savings Plan, annual allocations under the Employee Stock Ownership Plan, and certain perquisites, including financial counseling and tax preparation services and relocation reimbursements.

Name	401(k) Match	ESOP Allocation	Financial Counseling	Relocation	Benefits Paid	Total
J. F. Sipics	$7,116	$4,228	$5,000	$	$7,311(b)(c)(d)	$ 23,655
P. A. Farr	5,633	330	4,000		100(d)	10,063
J. E. Abel	6,677	1,688			100(d)	8,465
J. M. Simmons, Jr.	5,452	316	9,000	152,339(a)	4,327(b)	171,434
D. G. DeCampli				24,699(a)		24,699

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(a) The expenses listed for Messrs. Simmons and DeCampli include tax gross-up payments of $29,582 to Mr. Simmons and $11,523 to Mr. DeCampli. Relocation expenses for Mr. Simmons are computed on the basis of the amounts of reimbursements to him for costs of movement and storage of household goods; house hunting costs; temporary living costs; costs associated with the purchase of a home in the new location; costs associated with the sale of his former residence; relocation company administrative costs; home sale incentives; and other miscellaneous fees.

[b] Includes the following payments to executive officers for vacation earned but not taken: Mr. Sipics ($6,731) and Mr. Simmons ($4,327).

[c] Each management employee receives an annual allocation of funds that can be used to purchase health and welfare benefits, such as health insurance, life insurance and additional vacation up to 40 hours. If an employee does not use all of the allocated funds for company benefits, the employee can elect to receive the remaining cash. Mr. Sipics received such a payment of $480 in 2006.

[d] Each employee who completed a health risk appraisal as part of PPL s wellness program received $100 in their paycheck. Messrs. Sipics, Farr and Abel received this payment.

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GRANTS OF PLAN-BASED AWARDS DURING 2006

The following table provides information about equity and non-equity awards granted to the named executive officers in 2006, specifically: (1) the grant date; (2) estimated possible payouts under the 2006 annual cash incentive award program; (3) the number of shares of PPL Corporation common stock underlying all stock awards, which consist of restricted stock units awarded to the named executive officers in 2006 for 2005 performance under PPL s Incentive Compensation Plan (the ICPKE for Mr. DeCampli), and restricted stock units granted pursuant to the Premium Exchange Program described under the Stock Ownership section of this Information Statement; (4) the number of shares underlying stock options awarded to the named executive officers; (5) the exercise price of the stock option awards, which was calculated using the average of the high and low sale prices of PPL Corporation stock on the date of grant; and (6) the grant date fair value of each equity award computed under SFAS 123(R).

Name	Grant Date	Estimated Possible Payouts Under Non-Equity Incentive Plan Awards[1] Threshold	Target	Maximum	All Other Stock Awards: Number of Shares of Stock or Units[2]	All Other Option Awards: Number of Securities Underlying Options[3]	Exercise or Base Price of Option Awards[4] ($/Sh)	Grant Date Fair Value of Stock and Option Awards[5]
J. F. Sipics	3/17/2006	$0	$ 175,000	$ 262,500				
	1/26/2006				18,660			$562,412
	1/26/2006					57,470	$30.14	279,304
P. A. Farr	3/17/2006	0	195,000	292,500				
	1/26/2006				14,230			428,892
	1/26/2006					61,890	30.14	300,785
	1/27/2006				15,400			463,232
J. E. Abel	3/17/2006	0	106,309	159,464				
	1/26/2006				4,590			138,343
	1/26/2006					29,100	30.14	141,426
	3/01/2006				1,020			32,385
J. M. Simmons, Jr.	3/17/2006	0	82,500	123,750				
	1/26/2006				4,120			124,177
	1/26/2006					26,110	30.14	126,895
D. G. DeCampli	3/17/2006	0	106,000	159,500				
	12/04/2006				6,060			225,129

(1)

This column shows the potential payout range under the 2006 annual cash incentive award program. For additional information, see CD&A Compensation Elements Direct Compensation Annual Cash Incentive Awards at page 10. The cash incentive payout range is from 0% to 150%. The actual 2006 payout is found in the Summary Compensation Table on page 25 in the column entitled Non-Equity Incentive Plan Compensation.

(2) This column shows the total number of restricted stock units granted in 2006 to the named executive officers. In general, restrictions will lapse three years from the date of grant (on January 26, 2009 for the awards granted on January 26, 2006; on March 1, 2009 for the awards granted on March 1, 2006 to Mr. Abel under the Premium Exchange Program; and on December 4, 2009 for the awards granted on December 4, 2006 to Mr. DeCampli on his first day of employment with the company). During the restricted period, each restricted stock unit entitles the individual to receive quarterly payments from PPL Corporation equal to the quarterly dividends on one share of PPL Corporation stock. As a result of Mr. Sipics retirement and under the terms of PPL s Incentive Compensation Plan, the restrictions on 31,400 restricted stock units will lapse on July 1, 2007 for units granted in January 2006 for 2005 performance, which is six months after his retirement. Mr. Sipics would have forfeited 3,920 Premium Units granted under the Premium Exchange Program, but the CGNC waived the forfeiture as part of his retirement package. See Termination Benefits Termination Benefits for Mr. Sipics on page 38 for more information on his retirement package.

This column also shows the number of restricted stock units granted to the following named executive officers who exchanged a portion of their cash incentive compensation awarded in January 2006 for 2005 performance under the Premium Exchange Program (called Exchanged Units) and the number of premium restricted stock units granted in January 2006 as result of the Exchanges made (called Premium Units): Sipics (6,860 Exchanged Units and 2,740 Premium Units); Farr (3,190 Exchanged Units and 1,280 Premium Units); and Abel (730 Exchanged Units and 290 Premium Units). The Exchanged Units are not included in the Stock Award column of the Summary Compensation Table because they would have been required to be

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reported as cash incentive awards for 2005. The Premium Units are included in this year s Summary Compensation Table to the extent they were expensed during 2006.

(3) This column shows the number of stock options granted in 2006 to the named executive officers. These options vest and become exercisable in three equal annual installments, beginning on January 26, 2007, which is one year after the grant date.

(4) This column shows the exercise price for the stock options granted in 2006, which was the average of the high and low sale prices of PPL Corporation common stock on the date the CGNC granted the options. This exercise price is greater than the closing price of $29.85 on the grant date.

(5) This column shows the full grant date fair value of restricted stock units and stock options under SFAS 123(R) granted to the named executive officers. Generally, the full grant date fair value is the amount that the company would expense in its financial statements over the award s vesting schedule. Because Messrs. Sipics and Abel were eligible for retirement, the full grant date fair value of their stock awards was expensed in 2006. For restricted stock units, fair value is calculated using the average of the high and low sale prices of PPL Corporation stock on the grant date, as follows: $30.14 for the grants made on January 26, 2006; $30.08 for the retention shares granted to Mr. Farr on January 27, 2006; $31.75 for the grants made on March 1, 2006 to Mr. Abel under the Premium Exchange Program; and $37.15 for the grants made on December 4, 2006 to Mr. DeCampli on his first day of employment. For stock options, fair value is calculated using the Black-Scholes value on the grant date of $4.86. For additional information on the valuation assumptions, see Note 12 of the company s financial statements in the Annual Report on Form 10-K for the year ended December 31, 2006, as filed with the SEC. These amounts reflect the accounting expense, and do not correspond to the actual value that will be recognized by the named executive officers when restrictions lapse on the restricted stock units or when the options are exercised.

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OUTSTANDING EQUITY AWARDS AT FISCAL-YEAR END 2006

The following table provides information on all unexercised stock option awards, as well as all unvested restricted stock and restricted stock unit awards for each named executive officer. Each stock option grant is shown separately for each named executive and the restricted stock or restricted stock units that have not vested are shown in the aggregate. The vesting schedule for each grant is shown following this table, based on the option or stock award grant date. The market value of the stock awards is based on the closing market price of PPL Corporation stock as of Friday, December 29, 2006, which was $35.84. For additional information about the stock option and stock awards, see CD&A Compensation Elements Direct Compensation Long-term Incentive Awards (Equity Awards) at page 15.

	Option Awards					Stock Awards	
Name	Number of Securities Underlying Unexercised Options (#) Exercisable[1]	Number of Securities Underlying Unexercised Options (#) Unexercisable[1]	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options	Option Exercise Price	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested[2]	Market Value of Shares or Units of Stock That Have Not Vested
J. F. Sipics	28,100			$21.58	1/24/2011		
	23,980			18.12	1/22/2013		
	31,533	15,767		22.59	1/21/2014		
	18,254	36,506		26.66	1/26/2015		
		57,470		30.14	1/25/2016		
						44,420	$1,592,013
P. A. Farr		7,427		22.59	1/21/2014		
	16,994	33,986		26.66	1/26/2015		
		61,890		30.14	1/25/2016		
						72,130	2,585,139
J. E. Abel	3,240			18.12	1/22/2013		
	8,900	8,900		22.59	1/21/2014		
	10,060	20,120		26.66	1/26/2015		
		29,100		30.14	1/25/2016		
						16,450	589,568
J. M. Simmons, Jr.		26,110		30.14	1/25/2016		
						4,120	147,661
D. G. DeCampli						6,060	217,190

(1) All stock options for the named executive officers vest, or become exercisable, over three years one-third at the end of each year following grant. Under the terms of PPL s Incentive Compensation Plan, all of Mr. Sipics unvested outstanding stock options granted prior to 2006 vested as of his retirement date, which was January 1, 2007. The 57,470 stock options granted to Mr. Sipics on January 26, 2006 were forfeited when he retired because the grant date was less than 12 months before his retirement date.

As of December 31, 2006, the vesting dates of unvested stock option awards for the named executive officers were as follows:

		Vesting Dates					
		2007			2008		2009
Officer	**Grant Date**	**1/22**	**1/26**	**1/27**	**1/26**	**1/27**	**1/26**
J. F. Sipics	1/22/04	15,767[a]					
	1/27/05			18,253[a]		18,253[a]	
	1/26/06		19,157[b]		19,156[b]		19,157[b]
P. A. Farr	1/22/04	7,427					
	1/27/05			16,993		16,993	
	1/26/06		20,630		20,630		20,630
J. E. Abel	1/22/04	8,900					
	1/27/05			10,060		10,060	
	1/26/06		9,700		9,700		9,700
J. M. Simmons, Jr.	1/26/06		8,704		8,703		8,703
D. G. DeCampli[c]							

[a] These unvested stock options vested on the day Mr. Sipics retired, which was January 1, 2007.

[b] These unvested stock options were forfeited on the day Mr. Sipics retired.

[c] Mr. DeCampli did not receive any stock option awards in 2006.

(2) The dates that restrictions lapse for each restricted stock or unit award granted to the named executive officers are as follows:

		Dates Restrictions Lapse							
		2007		2008		2009			
Officer	**Grant Date**	**1/22**	**3/1**	**1/27**	**3/1**	**1/26**	**3/1**	**12/4**	**4/27/27**
J. F. Sipics	1/22/04	10,480[a]							
	1/27/05			15,280[b]					
	1/26/06					18,660[b]			
P. A. Farr	4/22/02								24,600
	3/01/04		5,200						
	1/27/05			8,420					
	3/01/05				4,280				
	1/26/06					14,230			
	1/27/06								15,400
J. E. Abel	1/22/04	3,120							
	3/01/04		2,740						

	1/27/05	4,980			
	1/26/06		4,590		
	3/01/06			1,020	
J. M. Simmons, Jr.	1/26/06		4,120		
D. G. DeCampli	12/4/06				6,060

(a) The restrictions on 10,420 of these restricted stock unit awards lapsed on January 1, 2007, the day Mr. Sipics retired.

(b) The restrictions on 14,640 of the 15,280 restricted stock units granted on January 27, 2005, and on 16,760 of the 18,660 restricted stock units granted on January 26, 2006 will lapse on July 1, 2007 as a result of Mr. Sipics retirement. The remaining options were forfeited as of his retirement on January 1, 2007.

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OPTION EXERCISES AND STOCK VESTED IN 2006

The following table provides information for each of the named executive officers on (1) stock option exercises during 2006, including the number of shares acquired upon exercise and the value realized and (2) the number of shares acquired upon the vesting of stock awards in the form of restricted stock units and the value realized, each before payment of any applicable withholding tax and broker commissions.

	Option Awards		Stock Awards	
Name	Number of Shares Acquired on Exercise	Value Realized on Exercise[1]	Number of Shares Acquired on Vesting	Value Realized on Vesting[2]
J. F. Sipics			3,200	$101,600
P. A. Farr	15,139	$214,787	3,640	114,484
J. E. Abel	6,000	77,100	3,700	114,404
J. M. Simmons, Jr.				
D. G. DeCampli				

(1) Amounts reflect the difference between the exercise price of the stock option and the market price at the time of exercise.

(2) Amounts reflect the market value of the restricted stock units on the day the restrictions lapsed.

PENSION BENEFITS IN 2006

The following table sets forth information on the pension benefits for the named executive officers under each of the following pension plans:

PPL Retirement Plan. The PPL Retirement Plan is a funded and tax-qualified defined benefit retirement plan that covers approximately 5,750 active employees of PPL as of December 31, 2006. As applicable to the named executive officers, the plan provides benefits based primarily on a formula that takes into account the executive s earnings for each fiscal year. Benefits under the PPL Retirement Plan for eligible employees are determined as the greater of the following two formulas:

The first is a career average pay formula of 2.25% of annual earnings for each year of credited service under the plan.

The second is a final average pay formula as follows:

1.3% of final average earnings up to the average Social Security Wage Base ($48,816 for 2006)

plus
1.7% of final average earnings in excess of the average Social Security Wage Base

multiplied by
the sum of years of credited service (up to a maximum of 40 years).

Under the final average pay formula, final average earnings equal the average of the highest 60 months of pay during the last 120 months of credited service. The Social Security Wage Base is the average of the taxable social security wage base for the 35 consecutive years preceding an employee s retirement date or, for employees retiring at the end of 2006, $48,816. The executive s annual earnings taken into account under each formula include base salary, plus cash incentive awards, less amounts deferred under the PPL Officers Deferred Compensation Plan, but may not exceed an IRS-prescribed limit applicable to tax-qualified plans ($220,000 for 2006).

The benefit an employee earns is payable starting at retirement on a monthly basis for life. Benefits are computed on the basis of the life annuity form of pension, with a normal retirement age of 65. Benefits are reduced for retirement prior to age 60 for employees with 20 years of credited service, and reduced prior to age 65 for other employees. Employees vest in the PPL Retirement Plan after five years of credited service. In addition, the plan provides for joint and survivor annuity choices, and does not require employee contributions.

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Benefits under the PPL Retirement Plan are subject to the limitations imposed under Section 415 of the Internal Revenue Code. The Section 415 limit for 2006 is $175,000 per year for a single life annuity payable at an IRS-prescribed retirement age.

PPL Supplemental Executive Retirement Plan. PPL offers the PPL Supplemental Executive Retirement Plan, or SERP, to approximately 27 active officers in PPL companies as of December 31, 2006, including all of the named executive officers, to provide for retirement benefits above amounts available under the PPL Retirement Plan described above. The SERP is unfunded and is not qualified for tax purposes. Accrued benefits under the SERP are subject to claims of PPL s creditors in the event of bankruptcy.

The SERP formula is 2.0% of earnings for the first 20 years of credited service plus 1.5% of earnings for the next 10 years. Earnings include base salary and annual cash incentive awards.

Benefits are computed on the basis of the life annuity form of pension, with a normal retirement age of 65. Generally, absent a specifically authorized exception, such as upon a qualifying termination in connection with a change in control, no benefit is payable under the SERP if the executive officer has less than 10 years of service. Benefits under the SERP are paid, in accordance with a participant s advance election, as a single sum or as an annuity, including choices of a joint and survivor or years-certain annuity. At age 60, or at age 50 with 10 years of service, accrued benefits are vested and may not be reduced by an amendment to the SERP or termination by the company. After the completion of 10 years of service, participants are eligible for death benefit protection.

PPL Subsidiary Retirement Plan. From December 1999 until September 2001, Mr. Farr participated in the PPL Subsidiary Retirement Plan while he was employed by a generation subsidiary of PPL Corporation. This plan is a defined benefit pension plan that provides an annuity form of benefit payable on retirement at age 50 or older. Mr. Farr s benefit amount under this plan was frozen when he became an employee of PPL Services Corporation. The present value of his accumulated benefit under this plan is reflected in the table below.

Name	Plan Name	Number of Years Credited Service	Present Value of Accumulated Benefit[(1)(2)]	Payments During Last Fiscal Year
J. F. Sipics	PPL Retirement Plan	35.4	1,349,223	
	SERP	28.4	1,769,089	
P. A. Farr	PPL Retirement Plan	2.3	41,362	
	SERP	8.6	186,735	
	PPL Subsidiary Retirement Plan	4.8	20,538	
J. E. Abel	PPL Retirement Plan	32.3	1,009,908	
	SERP	25.9	612,750	
J. M. Simmons, Jr.	PPL Retirement Plan	.9	17,954	
	SERP	.9	6,932	
D. G. DeCampli	PPL Retirement Plan			
	SERP			

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[1] The accumulated benefit is based on service and earnings (base salary and annual cash incentive award) considered by the plans for the period through December 31, 2006. The present value has been calculated assuming the named executive officers will remain in service until age 60, the age at which retirement may occur without any reduction in benefits, and that the benefit is payable under the available forms of annuity consistent with the assumptions as described in Note 13 to the financial statements in the company s Annual Report on Form 10-K for the year ended December 31, 2006, as filed with the SEC. As described in such Note, the interest assumption is 5.94%. The post-retirement mortality assumption is based on the most recently available retirement plan table published by the Society of Actuaries, known as RP 2000, which is a widely used table for determining accounting obligations of pension plans. Only Messrs. Sipics and Abel are vested in the SERP as of December 31, 2006.

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(2) The present values in the table above are prescribed by the SEC. The table below illustrates the benefits payable under the listed events assuming termination of employment occurred as of December 31, 2006.

SERP Payments upon Termination as of December 31, 2006[a]

Named Executive Officer	Retirement	Death	Disability
J. F. Sipics	$ 1,769,089	$ 791,667	$ 1,769,089
P. A. Farr[b]			
J. E. Abel	961,997	397,918	961,997
J. M. Simmons, Jr.[c]			
D. G. DeCampli[c]			

(a) Messrs. Sipics and Abel have elected to receive benefits payable under the SERP as a lump-sum payment, subject to applicable law. The amounts shown in this table represent the values that would have become payable based on a December 31, 2006 termination of employment. Actual payment would be made following December 31, subject to plan rules and compliance with Section 409A of the Internal Revenue Code.

(b) Mr. Farr is not eligible to retire or receive other benefits under the SERP. If he had left PPL on December 31, 2006, voluntarily or as a result of death or a disability, he would have been vested in deferred benefits on a reduced basis under the PPL Retirement Plan, first payable at age 55, and under the PPL Subsidiary Retirement Plan, first payable at age 50.

(c) Messrs. Simmons and DeCampli are not eligible to retire or receive other benefits under the SERP.

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NONQUALIFIED DEFERRED COMPENSATION IN 2006

The PPL Officers Deferred Compensation Plan allows participants to defer all but $75,000 of their base salary and up to all of their annual cash incentive awards. PPL did not make any matching contributions to this plan during 2006. A hypothetical account is established for each participant who elects to defer, and the participant selects one or more deemed investment choices that generally mirror those that are available generally to employees under PPL s 401(k) plan at Fidelity Investments, also known as the PPL Deferred Savings Plan. Earnings and losses on each account are determined based on the performance of the investment funds selected by the participant. PPL maintains each account as a bookkeeping entry.

In general, the named executive officers cannot withdraw any amounts from their deferred accounts under this plan until they either leave or retire from a PPL company. The CLC has the discretion to make a hardship distribution if there is an unforeseeable emergency that causes a severe financial hardship to the participant. Participants may elect one or more annual installments for a period up to 15 years, provided the participant complies with the election and timing rules of Section 409A of the Internal Revenue Code. No withdrawals or distributions were made by the named executive officers in 2006.

Name	Executive Contributions in Last FY[1]	Registrant Contributions in Last FY	Aggregate Earnings in Last FY[2]	Aggregate Withdrawals/ Distribution	Aggregate Balance at Last FYE[3]
J. F. Sipics					
P. A. Farr	$ 30,831		14,439		189,334
J. E. Abel			2,474		27,113
J. M. Simmons, Jr.					
D. G. DeCampli					

(1) The amount deferred by Mr. Farr during 2006 is included in the Salary column of the Summary Compensation Table.

(2) Aggregate earnings for 2006 are not reflected in the Summary Compensation Table because such earnings are not considered to be above-market earnings.

(3) Represents the total balance of each named executive officer s account as of December 31, 2006. All amounts previously deferred by the named executive officers under the Officers Deferred Compensation Plan were reported in previous years in either the Salary or Bonus column of prior Summary Compensation Tables.

Change-in-Control Arrangements

PPL Corporation has entered into severance agreements with each of the named executive officers, which provide benefits to these officers upon qualifying terminations of employment in connection with a change in control of PPL Corporation. A change in control is defined as the occurrence of any five specific events. These events are summarized as follows:

- a change in the majority of the members of the PPL Corporation Board of Directors occurs through contested elections;
- an investor or group acquires 20% or more of PPL Corporation s common stock;
- a merger occurs that results in less than 60% control of PPL Corporation or surviving entity by the current shareowners;
- shareowner approval of the liquidation or dissolution of PPL Corporation; or
- the Board of Directors of PPL Corporation declares that a change in control is anticipated to occur or has occurred.

A voluntary termination of employment by the named executive officer would only result in the payment of benefits if there was good reason for leaving. Good reason includes a number of circumstances where the named executive officer has a substantial adverse change in the employment relationship or the duties assigned. For example, a reduction in salary, a relocation of the place of work more than 30 miles away, or a cutback or exclusion from a compensation plan, pension plan, or welfare plan would be good reason. The benefits

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provided under these agreements replace any other severance benefits that PPL Corporation or any prior severance agreement would provide to these named executive officers.

There is no benefit payable before or after a change in control if the officer is discharged for cause. Cause generally means willful conduct that can be shown to cause material injury to the company or the willful refusal to perform duties after written demand by the PPL Corporation Board of Directors.

Each of the severance agreements continues in effect until December 31, 2008, and the agreements generally are automatically extended for additional one-year periods. If a change in control occurs, the agreements will expire no earlier than 36 months after the month in which the change in control occurs. Each agreement provides that the named executive officer will be entitled to the severance benefits described below if, in connection with a change in control, the company terminates the named executive officer s employment for any reason other than death, disability, retirement or cause, or the officer terminates employment for good reason.

These benefits include:

- a lump-sum payment equal to three times (for Messrs. Sipics, Farr, Abel and DeCampli) or two times (for Mr. Simmons) the sum of (1) the named executive officer s base salary in effect immediately prior to the date of termination, or if higher, immediately prior to the first occurrence of an event or circumstance constituting good reason, and (2) the highest annual bonus in respect of the last three fiscal years ending immediately prior to the fiscal year in which the change in control occurs, or if higher, the fiscal year immediately prior to the fiscal year in which first occurs an event or circumstance constituting good reason ;

- a lump-sum payment having an actuarial present value equal to the additional pension benefits the officer would have received had the officer continued to be employed by the company for an additional 36 months (for Messrs. Sipics, Farr, Abel and DeCampli) or 24 months (for Mr. Simmons);

- the continuation of welfare benefits for the officer and his or her dependents for the applicable 36-month or 24-month period following separation (reduced to the extent the officer receives comparable benefits from another employer);

- unpaid incentive compensation that has been allocated or awarded for a previous performance period;

- all contingent incentive compensation awards for all then uncompleted periods, calculated on a prorated basis of months of completed service, assuming performance achievement at 100% of the target level;

- outplacement services for up to three years;

- for Messrs. Sipics, Farr and DeCampli only, a gross-up payment for any excise tax imposed under the golden parachute provisions of the Internal Revenue Code; and

- post-retirement health care and life insurance benefits to officers who would have become eligible for such benefits within the applicable 36-month or 24-month period following the change in control.

See the Potential Payments upon Termination or Change in Control of PPL Corporation table on page 40 for the estimated value of benefits to be paid if a named executive officer was terminated after a change in control of PPL Corporation for qualifying reasons.

In addition to the benefits the severance agreements provide, the following events would occur in the event of a change in control under PPL s compensation arrangements:

- the restriction period applicable to any outstanding restricted stock or restricted stock unit awards lapses for those awards granted as part of PPL s compensation program (excluding restricted stock granted under any retention agreements);
- all restrictions on the exercise of any outstanding stock options lapse; and
- all participants in the SERP immediately vest in their accrued benefit, even if not yet vested due to age and service.

The value of the SERP enhancements is included under the Change in Control Termination column of the Potential Payments upon Termination or Change in Control of PPL Corporation table provided below at page 40.

PPL Corporation has trust arrangements in place to facilitate the funding of benefits under the SERP and the Officers Deferred Compensation Plan if a change in control were to occur. PPL Corporation is in the process of

adding additional trusts for the funding of the severance agreements. Currently, the trusts are not funded. The trusts provide that immediately prior to a change in control, the chief executive officer of PPL Corporation must authorize an irrevocable cash contribution sufficient to pay all benefits under these plans as of the date of the change in control. PPL Corporation is in the process of amending the old and new trust arrangements to provide for PPL Corporation to fund the trusts at the time a potential change in control occurs. The funds are refundable to PPL Corporation if the change in control does not actually take place.

A potential change in control is triggered when:

- PPL Corporation enters into an agreement that would result in a change in control;
- PPL Corporation or any investor announces an intention to enter into a change in control;
- the Board of Directors of PPL Corporation declares that a potential change in control has occurred; or
- an investor obtains 5% or more of PPL Corporation s common stock and intends to control or influence management (requiring a Schedule 13D to be filed by the investor with the SEC).

Within 60 days of the end of each year after the change in control occurs, PPL Corporation is required to irrevocably deposit additional cash or property into the trusts in an amount sufficient to pay participants or beneficiaries the benefits that are payable under terms of the plans that are being funded by the trusts as of the close of each year. Any income on the trust assets would be taxed to PPL Corporation and not to the beneficiaries of the trusts, and such assets would be subject to the claims of general creditors in the event of PPL Corporation s insolvency or bankruptcy.

Retention Agreements

PPL has executed a retention agreement with Mr. Farr that grants to him 40,000 shares of restricted PPL common stock. The restriction period will lapse on April 27, 2027. In the event of death or disability, the restriction period on a prorated portion of these shares will lapse immediately. In the event of a change in control of PPL Corporation, the restriction period on all of these shares will lapse immediately if there is an involuntary termination of employment that is not for cause. In the event Mr. Farr is terminated for cause or he terminates his employment with all PPL-affiliated companies prior to April 27, 2027, all shares of this restricted stock will be forfeited.

Termination Benefits

The named executive officers are entitled to various benefits in the event of a termination of employment, but the value of this entitlement and its components varies depending upon the circumstances. A qualifying termination in connection with a change in control of PPL Corporation triggers contractual benefits under the severance and equity agreements described above. A retirement provides benefits and payments in cash or stock that are set forth in various executive plans referred to above. A termination resulting from death or disability also has a number of benefit consequences under various benefit plans.

The table entitled Potential Payments upon Termination or Change in Control of PPL Corporation below sets forth best estimates of the probable incremental value of benefits that are payable assuming a termination of employment as of December 31, 2006, for reasons of voluntary termination, retirement, death, disability or qualifying termination in connection with a change in control. However, as permitted by SEC disclosure rules, the table does not reflect any amounts provided to a named executive officer that are generally available to all management employees. Also, the table does not repeat information disclosed in the Nonqualified Deferred Compensation in 2006 table or, except to the extent that vesting or payment may be accelerated, the Pension Benefits in 2006 table or the Outstanding Equity

Awards at Fiscal-Year End 2006 table. If a named executive officer does not yet qualify for full retirement benefits or other benefits requiring longer service, that additional benefit is not reflected below. If a named executive officer has the ability to elect retirement and thereby avoid a forfeiture or decreased benefits, the tables assume that retirement was elected and is noted as such in the footnotes to the table.

In the event that an executive is terminated for cause by PPL, no additional benefits are due under the applicable plans and agreements.

Severance. See CD&A Compensation Elements Special Compensation Severance on page 20 for a discussion of PPL s practice on severance benefits. The company or PPL affiliates have entered into agreements

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with some executives, typically in connection with a mid-career hire situation and as part of an offer of employment, in which the executive has been promised a year s salary in severance pay in the event the executive is terminated by PPL for reasons other than cause. Severance benefits payable under these arrangements are conditioned on the executive agreeing to release the employer company from any liability arising from the employment relationship.

Specifically, with regard to the named executive officers, PPL Services Corporation (as to Mr. Simmons) and the company (as to Mr. DeCampli), agreed at the time of hiring to provide up to 52 weeks of salary should the respective executive be terminated after one year of employment. Payment would stop if such executive became re-employed during the 52-week period. In addition, the company further agreed to provide to Mr. DeCampli, for a period equal to the severance payment period, continued active employee health, dental and basic life insurance benefits in the event of such termination of employment.

As discussed above in Change-in-Control Arrangements, there is a structured approach to separation benefits for involuntary and select good reason terminations of employment in connection with a change in control of PPL Corporation. PPL Corporation has entered into agreements with each of the named executive officers that provide benefits to the officers upon qualifying terminations of employment in connection with a change in control of PPL Corporation. The benefits provided under these agreements replace any other severance benefits provided to these officers by PPL Corporation, or any prior severance agreement.

The table below includes the severance payments, the value of continued welfare benefits and outplacement benefits as Other separation benefits , and as to Messrs. Sipics and Farr**,** the value of gross-up payments for required Federal excise taxes on excess parachute payments as Tax gross-up amount payable. Although Mr. DeCampli became entitled to gross-up protection when he became president of the company on April 1, 2007, the table does not reflect any of these amounts because all values are provided as of December 31, 2006. Mr. DeCampli did not have gross-up protection at that time. The value of additional pension benefits provided under the severance agreements is discussed above in Change-in-Control Arrangements and is included as SERP in the table below.

SERP and ODCP. See Pension Benefits in 2006 above for a discussion of the SERP and Change-in-Control Arrangements for a discussion of enhanced benefits that are triggered if the named executive officer is terminated in connection with a change in control of PPL Corporation. The Potential Payments upon Termination or Change in Control of PPL Corporation table below only includes enhancements to benefits previously disclosed in the Pension Benefits in 2006 table available as a result of the circumstances of termination of employment.

Account balances under the Officers Deferred Compensation Plan become payable as of termination of employment for any reason. Current balances are included in the Nonqualified Deferred Compensation in 2006 table on page 34 above and are not included in the table below.

Annual Cash Incentive Awards. It is PPL s practice to pay a pro rata portion of the accrued but unpaid annual cash incentive award to executives who retire or who are eligible to retire and (1) die while employed or (2) terminate employment due to a disability during the performance year. Of the named executive officers, only Messrs. Sipics and Abel were eligible to retire as of December 31, 2006. If the executive officers who are not eligible to retire were to die or terminate employment due to a disability, the CGNC has the power to consider an award. If such executive officers were to leave voluntarily, they would not be entitled to an annual cash incentive award.

In the event of a qualifying termination in connection with a change in control, annual cash incentive awards that have been determined, but not yet paid, are payable under the terms of the severance agreements. Also in the case of a change in control, if a termination under the severance agreement occurs during the performance year, accrued incentive cash awards are payable on a pro rata basis for the period worked during the year using the assumptions that performance goals were attained at target.

The annual cash incentive awards discussed in the CD&A and detailed for the 2006 year would be payable, without enhancement, in the event of retirement, death, disability or involuntary termination for reasons other than cause for the retirement-eligible executive officers. In the event of a qualifying termination in connection with a change in control, all executives would be eligible for the award detailed in the CD&A. Annual cash incentive awards payable upon termination of employment are not included in the table below.

Long-term Incentive Awards. Restrictions on restricted stock units generally lapse upon retirement, death or termination of employment due to disability or in the event of a change in control. Restricted stock units are generally forfeited in the event of voluntary termination; however, for executives eligible to retire, which includes Messrs. Sipics and Abel as of December 31, 2006, the assumption for the table below is that the executive retires and restrictions lapse. Likewise, in the table below the assumption is, in the event of involuntary termination for reasons other than cause for executives eligible to retire, that the restrictions lapse. Premium units granted under the Premium Exchange Program are forfeited in the event of voluntary termination or retirement prior to age 60, are prorated in the event of retirement or termination of employment without cause on or after age 60, and in the event of death or disability all restrictions lapse. Premium units are included in the table below based on these assumptions.

For Mr. Farr s retention agreement, the restrictions on the retention shares lapse if his employment is terminated: (1) involuntarily for reasons other than for cause; (2) for qualifying reasons in connection with a change in control; or (3) in the event of death or disability. The value of these units for Mr. Farr is included in the appropriate column.

The table below also includes the value, as of December 31, 2006 (based on a PPL Corporation stock price of $35.84), of accelerated restricted stock units under each termination event.

Stock options that are not yet exercisable, other than those granted within 12 months before termination of employment, become exercisable upon retirement. In the event of death or termination of employment due to disability, stock options not yet exercisable continue to become exercisable in accordance with the vesting schedule (in one-third increments on each anniversary of the grant). Options that are not yet exercisable are generally forfeited in the event of voluntary termination; however, for executives eligible to retire (Messrs. Sipics and Abel), the assumption is that the executive retires. Likewise, the table assumes that in the event of involuntary termination for reasons other than cause, options not yet exercisable for executives eligible to retire become exercisable. In the event of voluntary termination of employment for reasons other than noted above, all executives have a minimum of 60 days to exercise options that are exercisable but that have not yet been exercised before they are forfeited.

Options granted under the ICP within 12 months of termination of employment are normally forfeited. In the event of a change in control, all options, including those granted within the last 12 months, become exercisable upon close of the transaction that results in the change in control.

The term of all PPL Corporation stock options is 10 years. In the event of retirement, the executive has the full term to exercise the options. In the event of termination of employment as a result of death or disability, the term is reduced to the earlier of the remaining term of the option or 36 months. In the event of a qualifying termination of employment in connection with a change in control, the term is reduced to 36 months for all outstanding options. Effective for grants of options made in 2007 and after, the exercise periods in the event of a change in control will be extended to the full term.

The table below includes the value (based on a PPL Corporation stock price of $35.84) of options that are not yet exercisable, assuming the options were exercised as of December 31, 2006 under each termination event. For the table below, options already exercisable as of the termination event are excluded. The value of these options is provided in the Outstanding Equity Awards at Fiscal-Year End 2006 table above.

Termination Benefits for Mr. Sipics

Mr. Sipics retired as of January 1, 2007, due to health reasons. In January 2007, for 2006 performance, the CGNC granted Mr. Sipics an annual cash award and restricted stock unit awards as described in the CD&A. The annual cash incentive award is also included in the Summary Compensation Table. Because the 8,790 restricted stock unit awards

were granted in January 2007, they were not expensed in 2006 and are not included in this year s Summary Compensation Table. The restrictions will lapse on July 25, 2007, which is six months after the grant date.

The CGNC approved an enhanced retirement benefit for Mr. Sipics equal to the difference between what his benefit would have been under the SERP if he had completed 30 years of service and retired at age 60, and what his benefit actually was under the terms of the SERP and the PPL Retirement Plan at his retirement date of January 1, 2007. On his retirement date, Mr. Sipics was 58 years old and he had completed approximately 28.5 years of service. This enhanced retirement benefit will be paid in the same form and at the time as benefits payable under the SERP. The CGNC also approved treating Mr. Sipics as if he had retired at age 60 for

purposes of determining his eligibility for retaining restricted stock units granted to him as the premium component of prior grants made under PPL s Premium Exchange Program. As a result of this enhanced retirement arrangement, Mr. Sipics retained 3,920 of the 6,520 PPL Corporation restricted stock units that he otherwise would have forfeited.

Mr. Sipics elected to receive his SERP benefit in the form of a lump-sum payment. The company paid Mr. Sipics SERP benefits in two installments in order to avoid adverse tax consequences under Section 409A of the Internal Revenue Code. He received the first payment of $765,367 as of January 1, 2007, the day he retired. He will receive the second payment of $1,003,728 as of July 1, 2007, six months after his retirement date, with interest determined by the interest rate applicable to the Stable Value Fund of the PPL Deferred Savings Plan for the period from January 1, 2007 to July 1, 2007. The SERP benefit was calculated assuming Mr. Sipics had attained age 60 and completed 30 years of service as a result of the CGNC authorization described above.

As of his retirement, Mr. Sipics was eligible to receive a total of 44,420 restricted stock units, including 3,920 Premium Units granted under the Premium Exchange Program that would have otherwise been forfeited as of retirement. The CGNC waived the forfeiture of the Premium Units as part of his retirement package. Restrictions lapsed on his retirement date of January 1 on 10,420 units granted in 2004, at a value of $374,182. Restrictions will lapse on an additional 31,400 units on July 1, 2007, six months after his retirement. Restrictions on 8,790 restricted stock units granted in January 2007 for 2006 performance will lapse on July 25, 2007, which is six months after the grant date. When the restrictions lapse in July, the value will be determined based on the closing price for PPL Corporation shares of common stock as of such dates.

As of his retirement, Mr. Sipics had a total of 101,867 exercisable stock options, which are exercisable for their stated terms. An additional 52,273 options (granted in 2004 and 2005) became exercisable as of his retirement. Mr. Sipics forfeited 57,470 options that were granted in January 2006, as 12 months had not elapsed since the grant date.

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POTENTIAL PAYMENTS UPON TERMINATION OR CHANGE IN CONTROL OF PPL CORPORATION

Executive Name	Retirement or Voluntary Termination	Death	Disability	Involuntary Termination Not for Cause	Change in Control Termination
J. F. Sipics					
Severance payable in cash[1]	$ 0	$ 0	$ 0	$ [7]	$ 1,673,706
Other separation benefits[2]	0	0	0	[7]	119,619
Tax gross-up amount payable[3]	0	0	0	0	2,128,929
SERP[4]	0	0	0	0	980,000
Restricted stock/units[5]	1,498,829	1,592,013	1,592,013	1,498,829	1,592,013
Stock options[6]	544,038	0	0	544,038	871,617
P. A. Farr					
Severance payable in cash[1]	0	0	0	[7]	1,938,000
Other separation benefits[2]	0	0	0	[7]	126,467
Tax gross-up amount payable[3]	0	0	0	0	3,165,403
SERP[4]	0	0	0	0	620,000
Restricted stock/units[5]	0	2,585,139	2,585,139	1,433,600[8]	2,585,139
Stock options[6]	0	0	0	[8]	763,172
J. E. Abel					
Severance payable in cash[1]	0	0	0	[7]	1,202,622
Other separation benefits[2]	0	0	0	[7]	114,671
Tax gross-up amount payable[3]	0	0	0	0	0
SERP[4]	0	0	0	0	1,090,000
Restricted stock/units[5]	580,608	589,568	589,568	580,608	589,568
Stock options[6]	302,627	0	0	302,627	468,497
J. M. Simmons, Jr.					
Severance payable in cash[1]	0	0	0	225,000	665,004
Other separation benefits[2]	0	0	0	[7]	100,623
Tax gross-up amount payable[3]	0	0	0	0	0
SERP[4]	0	0	0	0	100,000
Restricted stock/units[5]	0	147,661	147,661	[8]	147,661
Stock options[6]	0	0	0	[8]	148,827
D. G. DeCampli					
Severance payable in cash[1]	0	0	0	265,000	764,000
Other separation benefits[2]	0	0	0	12,800	90,479
Tax gross-up amount payable[3]	0	0	0	0	0
SERP[4]	0	0	0	0	115,000
Restricted stock/units[5]	0	217,190	217,190	[8]	217,190

Stock options[6]	0	0	0	[8]	0

(1) Messrs. Simmons and DeCampli each have an agreement to receive up to 52 weeks of pay following involuntary termination for reasons other than cause. The full 52 weeks of pay are illustrated as Severance payable in cash under the Involuntary Termination Not for Cause column.

In the event of termination of employment in connection with a change in control, the named executive officers are eligible for severance benefits if termination occurs within 36 months of a change in control (a) due to termination for reasons other than cause or (b) by the executive on the basis of good reason as that term is defined in the agreement.

For purposes of the illustration, we have assumed executives are eligible for benefits under the severance agreements. Amounts illustrated as Severance payable in cash under the Change in Control Termination column are three times (for Messrs. Sipics, Farr and Abel) and two times (for Mr. DeCampli) the sum of (a) the executive s annual salary as of the termination date plus (b) the highest annual cash incentive payment made in the last three years as provided under the agreements. Mr. Simmons severance pay was determined on the same basis as Mr. DeCampli s; however the benefit was reduced by $63,598 in order to avoid an excise tax, which would be payable by the executive. Mr. DeCampli became eligible for three times the sum described above when he was elected President of the company on April 1, 2007.

(2) Under the terms of each named executive officer s severance agreement, the executive is eligible for continued medical and dental benefits, life insurance and disability protection for the period equal to the severance payment, and outplacement benefits. The amounts illustrated as Other separation benefits are

the estimated present values of these benefits. In addition, for Mr. DeCampli, under the terms of his employment offer letter the company agreed to provide one year of medical, dental and life insurance coverage. An estimate of this cost is included under the Involuntary Termination Not for Cause column.

(3) In the event excise taxes become payable under Section 280G and Section 4999 of the Internal Revenue Code as a result of any excess parachute payments, as that phrase is defined by the Internal Revenue Service, the severance agreements of Messrs. Sipics and Farr provide that the company will pay the excise tax as well as gross-up the executive for the impact of the excise tax payment. (The tax payment and gross-up does not extend to normal income taxes due on any separation payments.) The amounts illustrated as Tax gross-up amount payable include the company s best estimate of the excise tax and gross-up payments that would be made if each named executive officer had been terminated on December 31, 2006, under the terms of the severance agreement.

(4) Amounts illustrated as SERP under the Change in Control Termination column include the value of the incremental benefits payable under the terms of the severance agreements and the SERP. Under the agreements, each named executive officer is eligible for a severance payment equal to the value of the SERP benefit that would be determined by adding an additional three years (for Messrs. Sipics, Farr and Abel) and two years (for Messrs. Simmons and DeCampli) of service. Under the SERP, upon a change in control, benefits vest immediately.

(5) Total outstanding restricted stock and restricted stock unit awards are shown in the Outstanding Equity Awards at Fiscal-Year End 2006 table above at page 29. The table above includes only the value of the restricted stock and stock units that would become payable as a result of each event as of December 31, 2006. In the table below, the number of units accelerated and payable as of the event, as well as the number forfeited, is shown. The gross value in the above table would be reduced by the amount of taxes required to be withheld; and the net shares, determined based on the stock price as of December 31, 2006, would be distributed based on a PPL Corporation stock price of $35.84. For purposes of the table below, the total number of shares is included without regard for the tax impact.

For Mr. Farr, the totals shown below for death, disability, involuntary termination not for cause and change in control termination include the acceleration of outstanding retention shares.

Restricted Stock and Restricted Stock Units
(#)

Named Executive Officer	Retirement or Voluntary Termination	Death	Disability	Involuntary Termination Not for Cause	Change in Control Termination
J. F. Sipics					
accelerated	41,820	44,420	44,420	41,820	44,420
forfeited	2,600	0	0	2,600	0
P. A. Farr					
accelerated	0	72,130	72,130	40,000(8)	72,130
forfeited	72,130	0	0	(8)	0

J. E. Abel					
accelerated	16,200	16,450	16,450	16,200	16,450
forfeited	250	0	0	250	0
J. M. Simmons, Jr.					
accelerated	0	4,120	4,120	(8)	4,120
forfeited	4,120	0	0	(8)	0
D. G. DeCampli					
accelerated	0	6,060	6,060	(8)	6,060
forfeited	6,060	0	0	(8)	0

(6) Total outstanding stock options are shown in the Outstanding Equity Awards at Fiscal-Year End 2006 table. The table above includes only the value of the options not yet exercisable that would become exercisable as a result of each event as of December 31, 2006. Exercisable options as of December 31, 2006, are excluded from this table. The table below details the number of options that accelerate and become exercisable as of the termination event, the number of options that become exercisable in the future in the events of death or disability and the number forfeited.

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For illustrative purposes, it is assumed that all options not yet exercisable that become exercisable as of the event are exercised as of December 31, 2006, based on a PPL Corporation stock price of $35.84.

Stock Options Not Yet Exercisable (#)

Named Executive Officer	Retirement or Voluntary Termination	Death	Disability	Involuntary Termination Not for Cause	Change in Control Termination
J. F. Sipics					
Accelerated	52,273	0	0	52,273	81,373
Forfeited	57,470	0	0	57,470	0
Become exercisable over next 36 months	0	81,373	81,373	0	0
P. A. Farr					
Accelerated	0	0	0	(8)	103,303
Forfeited	103,303	0	0	(8)	0
Become exercisable over next 36 months	0	103,303	103,303	0	0
J. E. Abel					
Accelerated	29,020	0	0	29,020	58,120
Forfeited	29,100	0	0	29,100	0
Become exercisable over next 36 months	0	58,120	58,120	0	0
J. M. Simmons, Jr.					
Accelerated	0	0	0	(8)	26,110
Forfeited	26,110	0	0	(8)	0
Become exercisable over next 36 months	0	26,110	26,110	0	0
D. G. DeCampli					
Accelerated	0	0	0	(8)	0
Forfeited	0	0	0	(8)	0
Become exercisable over next 36 months	0	0	0	0	0

(7) In the event of involuntary termination for reasons other than for cause, any severance payable in cash (except for Messrs. Simmons and DeCampli) and/or other separation benefits (except for Mr. DeCampli), if any, would be determined as of the date of termination and would require the approval of the CNGC.

(8)

In the event of involuntary termination for reasons other than for cause, Messrs. Farr, Simmons and DeCampli would forfeit all outstanding restricted stock units and stock options because they are not eligible to retire, with the exception of 40,000 shares of retention stock held by Mr. Farr. Any exceptions to the automatic forfeitures would require the approval of the CGNC.

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INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Fees to Independent Auditor for 2006 and 2005

For the fiscal year ended December 31, 2006, Ernst & Young LLP (E&Y) served as independent registered public accounting firm, or independent auditor for PPL Corporation and its subsidiaries, including the company. For the fiscal year ended December 31, 2005, PricewaterhouseCoopers LLP (PwC) served as PPL s independent auditor. The following table presents an allocation of fees billed by E&Y and PwC for the fiscal years ended December 31, 2006 and 2005, respectively, for professional services rendered for the audit of our company s annual financial statements and for fees billed for other services rendered.

	2006	2005
	(In thousands)	
Audit fees[(a)]	$ 725	$ 515
Audit-related fees[(b)]	27	27
Tax fees[(c)]		
All other fees[(d)]	4	

(a) Includes audit of annual financial statements and review of financial statements included in the company s Quarterly Reports on Form 10-Q and services in connection with statutory and regulatory filings or engagements, including comfort letters and consents for financings and filings made with the SEC.

(b) Fees for performance of specific agreed-upon procedures.

(c) The independent auditor does not provide tax consulting and advisory services to the company or any of its affiliates.

(d) Fees relating to access to an E&Y online accounting research tool.

Approval of Fees. PPL Corporation s Audit Committee has procedures for pre-approving audit and non-audit services to be provided by the independent auditor. The procedures are designed to ensure the continued independence of the independent auditor. More specifically, the use of our company s independent auditor to perform either audit or non-audit services is prohibited unless specifically approved in advance by the PPL Corporation Audit Committee. As a result of this approval process, PPL Corporation s Audit Committee has established specific categories of services and authorization levels. All services outside of the specified categories and all amounts exceeding the authorization levels are reviewed by the Chair of PPL Corporation s Audit Committee, who serves as the committee designee to review and approve audit and non-audit related services during the year. A listing of the approved audit and non-audit services is reviewed with the full PPL Corporation Audit Committee at its next meeting.

PPL Corporation s Audit Committee approved all of the audit and non-audit related fees for 2006 and 2005.

Representatives of E&Y are not expected to be present at the Annual Meeting.

OTHER MATTERS

Shareowner Proposals for the Company s 2008 Annual Meeting. To be included in the information statement for the 2008 Annual Meeting, any proposal intended to be presented at that Annual Meeting by a shareowner must be received by the Secretary of the company no later than January 1, 2008. To be properly brought before the Annual Meeting, any proposal must be received not later than 75 days in advance of the date of the 2008 Annual Meeting.

Annual Financial Statements. The company s 2006 financial statements and related management discussion are appended to this document.

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Schedule A

PPL Electric Utilities Corporation
2006 Financial Statements

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GLOSSARY OF TERMS AND ABBREVIATIONS

PPL Corporation and its current and former subsidiaries

PPL PPL Corporation, the parent holding company of PPL Electric, PPL Energy Funding and other subsidiaries.

PPL Capital Funding PPL Capital Funding, Inc., a wholly owned financing subsidiary of PPL.

PPL Capital Funding Trust I a Delaware statutory business trust created to issue the Preferred Security component of the PEPS Units. This trust was terminated in June 2004.

PPL Electric PPL Electric Utilities Corporation, a regulated utility subsidiary of PPL that transmits and distributes electricity in its service territory and provides electric supply to retail customers in this territory as a PLR.

PPL Energy Funding PPL Energy Funding Corporation, a subsidiary of PPL and the parent company of PPL Energy Supply.

PPL EnergyPlus PPL EnergyPlus, LLC, a subsidiary of PPL Energy Supply that markets and trades wholesale and retail electricity, and supplies energy and energy services in deregulated markets.

PPL Energy Supply PPL Energy Supply, LLC, a subsidiary of PPL Energy Funding and the parent company of PPL Generation, PPL EnergyPlus, PPL Global and other subsidiaries.

PPL Gas Utilities PPL Gas Utilities Corporation, a regulated utility subsidiary of PPL that specializes in natural gas distribution, transmission and storage services, and the competitive sale of propane.

PPL Generation PPL Generation, LLC, a subsidiary of PPL Energy Supply that owns and operates U.S. generating facilities through various subsidiaries.

PPL Global PPL Global, LLC, a subsidiary of PPL Energy Supply that owns and operates international energy businesses that are focused on the regulated distribution of electricity.

PPL Services PPL Services Corporation, a subsidiary of PPL that provides shared services for PPL and its subsidiaries.

PPL Transition Bond Company PPL Transition Bond Company, LLC, a subsidiary of PPL Electric that was formed to issue transition bonds under the Customer Choice Act.

Other terms and abbreviations

1945 First Mortgage Bond Indenture PPL Electric s Mortgage and Deed of Trust, dated as of October 1, 1945, to Deutsche Bank Trust Company Americas, as trustee, as supplemented.

2001 Senior Secured Bond Indenture PPL Electric s Indenture, dated as of August 1, 2001, to The Bank of New York (as successor to JPMorgan Chase Bank), as trustee, as supplemented.

AFUDC (Allowance for Funds Used During Construction) the cost of equity and debt funds used to finance construction projects of regulated businesses, which is capitalized as part of construction cost.

APB Accounting Principles Board.

ARB Accounting Research Bulletin.

ARO asset retirement obligation.

Black Lung Trust a trust account maintained under federal and state Black Lung legislation for the payment of claims related to disability or death due to pneumoconiosis.

CTC competitive transition charge on customer bills to recover allowable transition costs under the Customer Choice Act.

Customer Choice Act the Pennsylvania Electricity Generation Customer Choice and Competition Act, legislation enacted to restructure the state s electric utility industry to create retail access to a competitive market for generation of electricity.

DEP Department of Environmental Protection, a state government agency.

DOE Department of Energy, a U.S. government agency.

EITF Emerging Issues Task Force, an organization that assists the FASB in improving financial reporting through the identification, discussion and resolution of financial accounting issues within the framework of existing authoritative literature.

EMF electric and magnetic fields.

EPA Environmental Protection Agency, a U.S. government agency.

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ESOP Employee Stock Ownership Plan.

FASB Financial Accounting Standards Board, a rulemaking organization that establishes financial accounting and reporting standards.

FERC Federal Energy Regulatory Commission, the federal agency that regulates interstate transmission and wholesale sales of electricity and related matters.

FIN FASB Interpretation.

Fitch Fitch, Inc.

FSP FASB Staff Position.

GAAP generally accepted accounting principles.

ICP Incentive Compensation Plan.

ICPKE Incentive Compensation Plan for Key Employees.

IRS Internal Revenue Service, a U.S. government agency.

ISO Independent System Operator.

ITC intangible transition charge on customer bills to recover intangible transition costs associated with securitizing stranded costs under the Customer Choice Act.

kWh kilowatt-hour, basic unit of electrical energy.

LIBOR London Interbank Offered Rate.

Moody s Moody s Investors Service, Inc.

NUGs (Non-Utility Generators) generating plants not owned by public utilities, whose electrical output must be purchased by utilities under the PURPA if the plant meets certain criteria.

PCB polychlorinated biphenyl, an oil additive used in certain electrical equipment up to the late-1970s. It is now classified as a hazardous chemical.

PEPS Units (Premium Equity Participating Security Units, or PEPS^{SM} Units) securities issued by PPL and PPL Capital Funding Trust I that consisted of a Preferred Security and a forward contract to purchase PPL common stock, which settled in May 2004.

PJM (PJM Interconnection, L.L.C.) operator of the electric transmission network and electric energy market in all or parts of Delaware, Illinois, Indiana, Kentucky, Maryland, Michigan, New Jersey, North Carolina, Ohio, Pennsylvania, Tennessee, Virginia, West Virginia and the District of Columbia.

PLR (Provider of Last Resort) the role of PPL Electric in providing electricity to retail customers within its delivery territory who have not chosen to select an alternative electricity supplier under the Customer Choice Act.

PP&E property, plant and equipment.

Preferred Securities company-obligated mandatorily redeemable preferred securities issued by PPL Capital Funding Trust I, which solely held debentures of PPL Capital Funding, and by SIUK Capital Trust I, which solely holds debentures of WPD LLP.

PUC Pennsylvania Public Utility Commission, the state agency that regulates certain ratemaking, services, accounting and operations of Pennsylvania utilities.

PUC Final Order final order issued by the PUC on August 27, 1998, approving the settlement of PPL Electric s restructuring proceeding.

PUHCA Public Utility Holding Company Act of 1935, legislation passed by the U.S. Congress. Repealed effective February 2006 by the Energy Policy Act of 2005.

PURPA Public Utility Regulatory Policies Act of 1978, legislation passed by the U.S. Congress to encourage energy conservation, efficient use of resources and equitable rates.

PURTA the Pennsylvania Public Utility Realty Tax Act.

SAB Staff Accounting Bulletin.

SEC Securities and Exchange Commission, a U.S. government agency whose primary mission is to protect investors and maintain the integrity of the securities markets.

SFAS Statement of Financial Accounting Standards, the accounting and financial reporting rules issued by the FASB.

S&P Standard & Poor s Ratings Services.

SPE special purpose entity.

Superfund federal environmental legislation that addresses remediation of contaminated sites; states also have similar statutes.

VEBA Voluntary Employee Benefit Association Trust, trust accounts for health and welfare plans for future benefit payments for employees, retirees or their beneficiaries.

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MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS OF PPL ELECTRIC UTILITIES CORPORATION

Terms and abbreviations appearing here are explained in the glossary. Dollars are in millions, unless otherwise noted.

Forward-looking Information

Statements contained in these financial statements concerning expectations, beliefs, plans, objectives, goals, strategies, future events or performance and underlying assumptions and other statements which are other than statements of historical facts are forward-looking statements within the meaning of the federal securities laws. Although PPL Electric believes that the expectations and assumptions reflected in these statements are reasonable, there can be no assurance that these expectations will prove to be correct. These forward-looking statements involve a number of risks and uncertainties, and actual results may differ materially from the results discussed in the forward-looking statements. In addition to the specific factors discussed in the Management s Discussion and Analysis of Financial Condition and Results of Operations section herein, the following are among the important factors that could cause actual results to differ materially from the forward-looking statements:

market demand and prices for energy, capacity and fuel;

weather conditions affecting customer energy usage and operating costs;

the effect of any business or industry restructuring;

PPL Electric s profitability and liquidity, including access to capital markets and credit facilities;

new accounting requirements or new interpretations or applications of existing requirements;

transmission and distribution system conditions and operating costs;

current and future environmental conditions and requirements and the related costs of compliance, including environmental capital expenditures and other expenses;

market prices of commodity inputs for ongoing capital expenditures;

collective labor bargaining negotiations;

development of new markets and technologies;

political, regulatory or economic conditions in regions where PPL Electric conducts business;

any impact of hurricanes or other severe weather on PPL Electric;

receipt of necessary governmental permits, approvals and rate relief;

new state or federal legislation, including new tax legislation;

state and federal regulatory developments;

the impact of any state or federal investigations applicable to PPL Electric and the energy industry;

capital market conditions, including changes in interest rates, and decisions regarding capital structure;

the market prices of equity securities and the impact on pension costs and resultant cash funding requirements for defined benefit pension plans;

securities and credit ratings;

the outcome of litigation against PPL Electric;

potential effects of threatened or actual terrorism or war or other hostilities; and

PPL Electric s commitments and liabilities.

Any such forward-looking statements should be considered in light of such important factors and in conjunction with other documents of PPL Electric on file with the SEC.

New factors that could cause actual results to differ materially from those described in forward-looking statements emerge from time to time, and it is not possible for PPL Electric to predict all of such factors, or the extent to which any such factor or combination of factors may cause actual results to differ from those contained in any forward-looking statement. Any forward-looking statement speaks only as of the date on which such statement is made, and PPL Electric undertakes no obligation to update the information contained in such statement to reflect subsequent developments or information.

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Overview

PPL Electric provides electricity delivery service in eastern and central Pennsylvania. Its headquarters are in Allentown, PA. PPL Electric s strategy and principal challenge is to own and operate its electricity delivery business while maintaining high standards of customer service and reliability in a cost-effective manner.

PPL Electric s electricity delivery business is rate-regulated. Accordingly, this business is subject to regulatory risk in terms of the costs that they may recover and the investment returns that they may collect in customer rates. PPL Electric s PLR obligation and the associated recovery from customers of its energy supply costs after 2009, when PPL Electric s full requirements energy supply agreements with PPL EnergyPlus expire, will be determined by the PUC pursuant to rules that have not yet been promulgated. To address this risk, PPL Electric has filed a plan with the PUC detailing how it proposes to acquire its electricity supply for non-shopping customers after 2009. In February 2007, a PUC Administrative Law Judge issued a recommended decision approving PPL Electric s plan with minor modifications. PPL Electric cannot predict when the PUC will act on the recommended decision or what action it will take. Also, in February 2007, the PUC issued proposed PLR regulations and a policy statement regarding interpretation and implementation of those regulations. The PUC is requesting public comment on both the regulations and policy statement. At current forward market prices, PPL Electric currently estimates that customer rates could increase by about 20% in 2010.

A key challenge for PPL Electric is to maintain a strong credit profile. Investors, analysts and rating agencies that follow companies in the energy industry continue to be focused on the credit quality and liquidity position of these companies. PPL Electric continually focuses on maintaining an appropriate capital structure and liquidity position, thereby managing its target credit profile.

The purpose of Management s Discussion and Analysis of Financial Condition and Results of Operations is to provide information concerning PPL Electric s past and expected future performance in implementing the strategy and challenges mentioned above. Specifically:

Results of Operations provides an overview of PPL Electric s operating results in 2006, 2005 and 2004, including a review of earnings. It also provides a brief outlook for 2007.

Financial Condition Liquidity and Capital Resources provides an analysis of PPL Electric s liquidity position and credit profile, including its sources of cash (including bank credit facilities and sources of operating cash flow) and uses of cash (including contractual commitments and capital expenditure requirements) and the key risks and uncertainties that impact PPL Electric s past and future liquidity position and financial condition. This subsection also includes a listing of PPL Electric s current credit ratings.

Financial Condition Risk Management includes an explanation of PPL Electric s risk management activities regarding commodity price risk and interest rate risk.

Application of Critical Accounting Policies provides an overview of the accounting policies that are particularly important to the results of operations and financial condition of PPL Electric and that require its management to make significant estimates, assumptions and other judgments.

The information provided in Management s Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with PPL Electric s Financial Statements and the accompanying Notes.

Results of Operations

Earnings

Income available to PPL was:

2006	2005	2004
$ 180	$ 145	$ 74

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The after-tax changes in income available to PPL were due to:

	2006 vs. 2005	2005 vs. 2004
Delivery revenues (net of CTC/ITC amortization, interest expense on transition bonds and ancillary charges)	$ (6)	$ 123
Operation and maintenance expenses	(13)	(6)
Taxes, other than income (excluding gross receipts tax)	1	(9)
Depreciation	(4)	(3)
Change in tax reserves associated with stranded costs securitization (Note 2)		(15)
Interest income on 2004 IRS tax settlement		(5)
Financing costs (excluding transition bond interest expense)	(6)	4
Interest income on loans to affiliates	4	6
Income tax return adjustments	(4)	
Income tax reserve adjustments		5
Other	(1)	
Unusual items	64	(29)
	$ 35	$ 71

PPL Electric s year-to-year earnings were impacted by a number of key factors, including:

Delivery revenues decreased in 2006 compared with 2005 primarily due to milder weather in 2006.

In December 2004, the PUC approved an increase in PPL Electric s distribution rates of $137 million (based on a return on equity of 10.7%), and approved PPL Electric s proposed mechanism for collecting an additional $57 million in transmission-related charges, for a total annual increase of $194 million, effective January 1, 2005. Additionally, delivery revenues increased in 2005 compared with 2004 due to a 4.3% increase in electricity delivery sales volumes.

Operation and maintenance expense increased in 2006 compared with 2005, primarily due to higher tree trimming costs, a union contract ratification bonus and storm restoration costs. Operation and maintenance expense increased in 2005 compared with 2004, primarily due to increased system reliability work and tree trimming costs. Operation and maintenance expenses were also impacted in 2005 due to the January 2005 ice storm costs and subsequent deferral as discussed below.

In January 2005, severe ice storms hit PPL Electric s service territory. The total cost of restoring service to 238,000 customers, excluding capitalized costs and regular payroll expenses, was $16 million.

In August 2005, the PUC issued an order granting PPL Electric s petition for authority to defer and amortize for regulatory accounting and reporting purposes a portion of the ice storm costs, subject to certain conditions. As a result of the PUC Order and in accordance with SFAS 71, Accounting for the Effects of Certain Types of Regulation, in the third quarter of 2005, PPL Electric deferred $12 million of its previously expensed storm costs. The deferral was based on its assessment of the timing and likelihood of recovering the deferred costs in PPL Electric s next distribution base rate case.

The following after-tax items, which management considers unusual, also had a significant impact on earnings. See the indicated Notes to the Financial Statements for additional information.

	2006	2005	2004
Reversal of cost recovery Hurricane Isabel (Note 1)	$ (7)		
Realization of benefits related to Black Lung Trust assets (Note 8)	21		
PJM billing dispute (Note 9)	21	$ (27)	
Acceleration of stock-based compensation expense for periods prior to 2005 (Note 1)		(2)	
Total	$ 35	$ (29)	

PPL Electric s earnings beyond 2006 are subject to various risks and uncertainties. See Forward-Looking Information, the rest of Management s Discussion and Analysis of Financial Condition and Results of Operations and

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Note 9 to the Financial Statements for a discussion of the risks, uncertainties and factors that may impact PPL Electric s future earnings.

2007 Outlook

PPL Electric expects to have flat earnings in 2007 compared with 2006, with modest load growth being offset by increased operation and maintenance expenses.

In late March 2007, PPL Electric expects to file a request with the PUC seeking an increase in its distribution rates beginning in January 2008.

Statement of Income Analysis

Operating Revenues

Retail Electric

The increases in revenues from retail electric operations were attributable to:

	2006 vs. 2005	2005 vs. 2004
PLR electric generation supply	$ 127	$ 122
Electric delivery	(38)	201
Other	(1)	1
	$ 88	$ 324

The increases in revenues from retail electric operations for 2006 compared with 2005 were primarily due to increased PLR revenues resulting from an 8.4% rate increase, offset by a decrease in electric delivery revenues resulting from a decrease in sales volumes due in part to milder weather in 2006.

The increases in revenues from retail electric operations for 2005 compared with 2004 were primarily due to:

- higher electric delivery revenues resulting from higher transmission and distribution customer rates effective January 1, 2005, and a 4.3% increase in sales volume; and
- higher PLR revenues due to a 2% rate increase and a 6% increase in sales volume, in part due to the return of customers previously served by alternate suppliers.

Wholesale Electric to Affiliate

PPL Electric has a contract to sell to PPL EnergyPlus the electricity that PPL Electric purchases under contracts with NUGs. The $9 million increase in wholesale revenue to affiliate in 2006 compared with 2005 was primarily due to an unplanned outage at a NUG facility in 2005. PPL Electric therefore had more electricity to sell to PPL EnergyPlus in 2006.

The $6 million decrease in wholesale revenue to affiliate in 2005 compared with 2004 was also primarily due to the unplanned outage at a NUG facility in 2005.

Energy Purchases

Energy purchases decreased by $81 million for 2006 compared with 2005 primarily due to the $39 million loss accrual for the PJM billing dispute recorded in 2005 and the $28 million reduction of that accrual recorded in December 2006. See Note 9 to the Financial Statements for additional information regarding the PJM billing dispute. Also, the decrease reflects $14 million in lower ancillary costs and a reduction of $8 million resulting from the elimination of a charge to load-serving entities, which minimized the impacts of integrating into the Midwest ISO and PJM markets, contributed to the decrease. These decreases were partially offset by a $7 million increase due to an unplanned NUG outage in 2005.

Energy purchases increased by $49 million in 2005 compared with 2004 primarily due to the $39 million accrual for the PJM billing dispute. Also, the increase reflects a $6 million increase in ancillary costs and a $10 million charge to load-serving entities which began in May 2005, retroactive to December 2004. This charge minimized the revenue impacts to transmission owners that resulted from the integration of the Midwest ISO and PJM markets and continued until March 2006. These increases were partially offset by a $7 million decrease due to an unplanned NUG outage in 2005.

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Energy Purchases from Affiliate

Energy purchases from affiliate increased by $118 million in 2006 compared with 2005. The increase is primarily the result of an 8.4% increase in prices for energy purchased under the power supply contracts with PPL EnergyPlus needed to support PLR load, offset by a slight decrease in that load.

Energy purchases from affiliate increased by $90 million in 2005 compared with 2004. The increase reflects an increase in PLR load, as well as higher prices for energy purchased under the power supply contracts with PPL EnergyPlus that was needed to support the PLR load.

Other Operation and Maintenance

For the year ended 2006, PPL Electric s other operation and maintenance expense was reduced by a $36 million pre-tax one-time credit in connection with the realization of benefits related to the ability to use excess Black Lung Trust assets to make future benefit payments for retired miners medical benefits. See Note 8 to the Financial Statements for additional information.

Excluding this one-time credit, the increases in other operation and maintenance expenses were due to:

	2006 vs. 2005	2005 vs. 2004
Costs associated with severe ice storms in January 2005 (Note 1)	$ (16)	$ 16
Subsequent deferral of a portion of costs associated with January 2005 ice storms (Note 1)	12	(12)
Increase in PUC-reportable storm costs	9	
Increase in domestic system reliability work, including tree trimming	19	10
Accelerated amortization of stock-based compensation (Note 1)	(5)	5
Increase in pension and postretirement benefit costs (Note 8)	4	1
Increase in allocation of certain corporate service costs (Note 10)	2	1
Reversal of cost recovery Hurricane Isabel (Note 1)	11	
Decrease in employee benefits due to transfer of field services employees to PPL Generation		(7)
Union contract ratification bonus	3	
PJM system control and dispatch services	(5)	(3)
Change in retired miners medical benefits	(7)	5
Other	3	(6)
	$ 30	$ 10

Depreciation

Depreciation increased by $6 million in 2006 compared with 2005 and by $5 million in 2005 compared with 2004 primarily due to plant additions. 2006 compared with 2005 was impacted by the purchase of equipment previously leased. See Note 6 to the Financial Statements for additional information. 2005 compared with 2004 was impacted by the Automated Meter Reading project.

Taxes, Other Than Income

A $7 million increase in gross receipts tax expense, offset by a $2 million decrease in real estate tax expense, are the primary reasons for the $4 million increase in taxes, other than income, in 2006 compared with 2005.

In 2004, PPL Electric reversed a $14 million accrued liability for 1998 and 1999 PURTA taxes that had been accrued based on potential exposure in the proceedings regarding the Susquehanna nuclear station tax assessment. The rights of third-party intervenors to further appeal expired in 2004. The reversal and a $19 million increase in domestic gross receipts tax expense in 2005 are the primary reasons for the $33 million increase in taxes, other than income in 2005, compared with 2004.

Other Income net

See Note 11 to the Financial Statements for details of other income and deductions.

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Financing Costs

The decreases in financing costs, which include Interest Expense, Interest Expense with Affiliate and Dividends on Preferred Securities, were due to:

	2006 vs. 2005	2005 vs. 2004
Dividends on 6.25% Series Preference Stock (Note 4)	$ 12	
Interest on PLR contract collateral (Note 10)	5	$ 9
Decrease in long-term debt interest expense	(20)	(24)
Interest accrued for PJM billing dispute (Note 9)	(15)	8
Other	(1)	(1)
	$ (19)	$ (8)

Income Taxes

The changes in income taxes were due to:

	2006 vs. 2005	2005 vs. 2004
Higher pre-tax book income	$ 30	$ 50
Tax return adjustments	4	
Tax reserve adjustments		10
Other	1	1
	$ 35	$ 61

See Note 2 to the Financial Statements for details on effective income tax rates.

Financial Condition

Liquidity and Capital Resources

PPL Electric is focused on maintaining an appropriate liquidity position and strengthening its balance sheet, thereby continuing to improve its credit profile. PPL Electric believes that its cash on hand, short-term investments, operating cash flows, access to debt and equity capital markets and borrowing capacity, taken as a whole, provide sufficient resources to fund its ongoing operating requirements, future security maturities and estimated future capital expenditures. PPL Electric currently expects cash, cash equivalents and short-term investments at the end of 2007 to be less than $100 million, while maintaining approximately $200 million in credit facility capacity and up to $150 million in short-term debt capacity related to an asset-backed commercial paper program. However, PPL Electric s cash flows from operations and its access to cost effective bank and capital markets are subject to risks and uncertainties, including but not limited to:

unusual or extreme weather that may damage PPL Electric s transmission and distribution facilities or affect energy sales to customers;

the ability to recover and the timeliness and adequacy of recovery of costs associated with regulated utility businesses;

any adverse outcome of legal proceedings and investigations with respect to PPL Electric s current and past business activities; and

a downgrade in PPL Electric s or its subsidiary s credit ratings that could negatively affect their ability to access capital and increase the cost of maintaining credit facilities and any new debt.

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At December 31, PPL Electric had the following:

	2006	2005	2004
Cash and cash equivalents	$ 150	$ 298	$ 151
Short-term investments	26	25	10
	176	323	161
Short-term debt	42	42	42

The changes in PPL Electric s cash and cash equivalents position resulted from:

	2006	2005	2004
Net Cash Provided by Operating Activities	$ 578	$ 580	$ 898
Net Cash Used in Investing Activities	(287)	(193)	(523)
Net Cash Used in Financing Activities	(439)	(240)	(386)
Net (Decrease) Increase in Cash and Cash Equivalents	$ (148)	$ 147	$ (11)

Operating Activities

PPL Electric s cash provided by operating activities remained flat in 2006 compared with 2005. Except for the items explained below, there were no other significant changes in the components of PPL Electric s cash provided by operating activities. Domestic retail electric revenues increased as a result of an 8.4% increase in PLR sales prices in 2006, but were partially offset by a decrease in domestic delivery revenues resulting from a decrease in sales volumes, due in part to milder weather in 2006. The net increase from revenues was offset by energy purchases PPL Electric made from PPL EnergyPlus under the PLR contracts. PPL Electric purchased less energy under the PLR contracts in 2006 but incurred a scheduled 8.4% increase in the price it pays under such contracts.

Net cash provided by operating activities decreased by $318 million in 2005 compared with 2004, primarily as a result of receipts in 2004 of $300 million in cash collateral related to the PLR energy supply agreements and a federal income tax refund in 2004. The decrease for 2005 compared with 2004 was partially mitigated by the 7.1% increase in distribution rates and transmission cost recoveries effective January 1, 2005.

An important element supporting the stability of PPL Electric s cash from operations is its long-term purchase contracts with PPL EnergyPlus. These contracts provide sufficient energy for PPL Electric to meet its PLR obligation through 2009, at the predetermined capped rates it is entitled to charge its customers over this period. These contracts require cash collateral or other credit enhancement, or reductions or terminations of a portion of the entire contract through cash settlement, in the event of adverse changes in market prices. Also under the contracts, PPL Energy Supply may request cash collateral or other credit enhancement, or reductions or terminations of a portion of the entire contract through cash settlement, in the event of a downgrade of PPL Electric s credit ratings. The maximum amount that PPL Electric would have to post under these contracts is $300 million, and PPL Electric estimates that it would not have had to post any collateral if energy prices decreased by 10% from year-end 2006 or 2005 levels.

Investing Activities

The primary use of cash in investing activities is capital expenditures. See Forecasted Uses of Cash for detail regarding capital expenditures in 2006 and projected expenditures for the years 2007 through 2011.

Net cash used in investing activities increased by $94 million in 2006 compared with 2005, primarily as a result of an increase of $115 million in capital expenditures, of which $52 million related to the purchase of leased equipment. See Note 6 to the Financial Statements for further discussion of the purchase of leased equipment in connection with the termination of the related master lease agreements.

Net cash used in investing activities decreased by $330 million in 2005 compared with 2004, primarily as a result of initiating a $300 million demand loan to an affiliate in 2004.

Financing Activities

Net cash used in financing activities increased $199 million in 2006 compared with 2005, primarily as a result of the repurchase of $200 million of common stock from PPL, an increase of $298 million in net debt retirements and an increase of $23 million in dividends paid to PPL, partially offset by net proceeds of $245 million from the issuance of preference stock and a $75 million contribution from PPL. A portion of the proceeds received from the issuance of the

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preference stock was used to fund the repurchase of common stock from PPL. See Note 4 to the Financial Statements for details regarding the preference stock. PPL Electric did not issue any long-term debt in 2006. See Note 5 to the Financial Statements for more detailed information regarding PPL Electric s debt retirements during 2006.

Net cash used in financing activities decreased by $146 million in 2005 compared with 2004, primarily due to a decrease of $217 million in net debt retirements, partially offset by an increase of $69 million in dividends paid to PPL.

See Forecasted Sources of Cash for a discussion of PPL Electric s plans to issue debt and equity securities, as well as a discussion of credit facility capacity available to PPL Electric. Also see Forecasted Uses of Cash for a discussion of PPL Electric s plans to pay dividends on its common and preferred securities, as well as maturities of PPL Electric s long-term debt.

Forecasted Sources of Cash

PPL Electric expects to continue to have significant sources of cash available in the near term, including a credit facility, a commercial paper program and an asset-backed commercial paper program. PPL Electric also expects to continue to have access to debt and equity capital markets, as necessary, for its long-term financing needs.

Credit Facility

At December 31, 2006, PPL Electric s total committed borrowing capacity under its credit facility and the use of this borrowing capacity were:

	Committed Capacity	Borrowed	Letters of Credit Issued (b)	Available Capacity
PPL Electric Credit Facility (a)	$ 200			$ 200

(a) Borrowings under PPL Electric s credit facility bear interest at LIBOR-based rates plus a spread, depending upon the company s public debt rating. PPL Electric also has the capability to cause the lenders to issue up to $200 million of letters of credit under this facility, which issuances reduce available borrowing capacity.

The credit facility contains a financial covenant requiring debt to total capitalization to not exceed 70%. At December 31, 2006 and 2005, PPL Electric s consolidated debt to total capitalization percentages, as calculated in accordance with its credit facility, were 48% and 55%. The credit facility also contains standard representations and warranties that must be made for PPL Electric to borrow under it.

(b) PPL Electric has a reimbursement obligation to the extent any letters of credit are drawn upon.

In addition to the financial covenants noted in the table above, the credit agreement contains various other covenants. Failure to meet the covenants beyond applicable grace periods could result in acceleration of due dates of borrowings and/or termination of the agreement. PPL Electric monitors the covenants on a regular basis. At December 31, 2006, PPL Electric was in material compliance with these covenants. At this time PPL Electric believes that these covenants and other borrowing conditions will not limit access to this funding source. PPL Electric intends to renew and extend its $200 million credit facility in 2007.

Commercial Paper

PPL Electric maintains a commercial paper program for up to $200 million to provide it with an additional financing source to fund its short-term liquidity needs, if and when necessary. Commercial paper issuances are supported by the $200 million credit facility of PPL Electric. PPL Electric had no commercial paper outstanding at December 31, 2006 and 2005. During 2007, PPL Electric may issue commercial paper from time to time to facilitate short-term cash flow needs.

Asset-Backed Commercial Paper Program

PPL Electric participates in an asset-backed commercial paper program through which PPL Electric obtains financing by selling and contributing its eligible accounts receivable and unbilled revenue to a special purpose, wholly-owned subsidiary on an ongoing basis. The subsidiary pledges these assets to secure loans of up to an aggregate of $150 million from a commercial paper conduit sponsored by a financial institution. PPL Electric uses the proceeds from the program for general corporate purposes and to cash collateralize letters of credit. At December 31, 2006 and

2005, the loan balance outstanding was $42 million, all of which was used to cash collateralize letters of credit. See Note 5 to the Financial Statements for further discussion of the asset-backed commercial paper program.

Long-Term Debt and Equity Securities

Subject to market conditions in 2007, PPL Electric currently plans to issue up to $300 million in long-term debt securities. PPL Electric expects to use the proceeds to fund a maturity of existing debt and for general corporate purposes. PPL Electric currently does not plan to issue any equity securities in 2007.

Forecasted Uses of Cash

In addition to expenditures required for normal operating activities, such as purchased power, payroll, and taxes, PPL Electric currently expects to incur future cash outflows for capital expenditures, various contractual obligations and payment of dividends on its common and preferred securities.

Capital Expenditures

The table below shows PPL Electric s actual spending for the year 2006 and current capital expenditure projections for the years 2007 through 2011.

	Actual			Projected		
	2006	**2007**	**2008**	**2009**	**2010**	**2011**
Construction expenditures (a)						
Transmission and distribution facilities	$ 268	$ 272	$ 234	$ 260	$ 268	$ 317
Other	21	24	20	17	17	21
Total Capital Expenditures	$ 289	$ 296	$ 254	$ 277	$ 285	$ 338

(a) Construction expenditures include AFUDC, which is expected to be approximately $13 million for the 2007-2011 period.

PPL Electric s capital expenditure projections for the years 2007-2011 total approximately $1.5 billion. Capital expenditure plans are revised periodically to reflect changes in operational, market and regulatory conditions.

PPL Electric plans to fund all of its capital expenditures in 2007 with cash on hand and cash from operations.

Contractual Obligations

PPL Electric has assumed various financial obligations and commitments in the ordinary course of conducting its business. At December 31, 2006, the estimated contractual cash obligations of PPL Electric were:

Contractual Cash Obligations	Total	Less Than 1 Year	1-3 Years	4-5 Years	After 5 Years

Long-term Debt (a)	$ 1,979	$ 555	$ 881		$ 543
Capital Lease Obligations					
Operating Leases					
Purchase Obligations (b)	5,370	1,737	3,633		
Other Long-term Liabilities Reflected on the Balance Sheets under GAAP					
Total Contractual Cash Obligations	$ 7,349	$ 2,292	$ 4,514		$ 543

(a) Reflects principal maturities only. Includes $605 million of transition bonds issued by PPL Transition Bond Company in 1999 to securitize a portion of PPL Electric s stranded costs. This debt is non-recourse to PPL Electric.

(b) The payments reflected herein are subject to change, as the purchase obligation reflected is an estimate based on projected obligated quantities and projected pricing under the contract. Purchase orders made in the ordinary course of business are excluded from the amounts presented.

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Dividends

From time to time, as determined by its Board of Directors, PPL Electric pays dividends on its common stock to its parent, PPL, which uses the dividends for general corporate purposes, including meeting its cash flow needs. As discussed in Note 4 to the Financial Statements, PPL Electric may not pay dividends on its common stock, except in certain circumstances, unless full dividends have been paid on the 6.25% Series Preference Stock for the then-current dividend period. PPL Electric expects to continue to pay quarterly dividends on its outstanding preferred securities, if and as declared by its Board of Directors.

PPL Electric s 2001 Senior Secured Bond Indenture restricts dividend payments in the event that PPL Electric fails to meet interest coverage ratios or fails to comply with certain requirements included in its Articles of Incorporation and Bylaws to maintain its separateness from PPL and PPL s other subsidiaries. PPL Electric does not, at this time, expect that any of such limitations would significantly impact its ability to declare dividends.

Credit Ratings

Moody s, S&P and Fitch periodically review the credit ratings on the debt and preferred securities of PPL Electric and PPL Transition Bond Company. Based on their respective independent reviews, the rating agencies may make certain ratings revisions or ratings affirmations.

A credit rating reflects an assessment by the rating agency of the creditworthiness associated with an issuer and particular securities that it issues. The credit ratings of PPL Electric and PPL Transition Bond Company are based on information provided by PPL Electric and other sources. The ratings of Moody s, S&P and Fitch are not a recommendation to buy, sell or hold any securities of PPL Electric or PPL Transition Bond Company. Such ratings may be subject to revisions or withdrawal by the agencies at any time and should be evaluated independently of each other and any other rating that may be assigned to their securities. A downgrade in PPL Electric s or PPL Transition Bond Company s credit ratings could result in higher borrowing costs and reduced access to capital markets.

The following table summarizes the credit ratings of PPL Electric and PPL Transition Bond Company at December 31, 2006.

	Moody s	**S&P**	**Fitch (b)**
PPL Electric			
Senior Unsecured/Issuer Rating	Baa1	A-	BBB
First Mortgage Bonds	A3	A-	A-
Pollution Control Bonds (a)	Aaa	AAA	
Senior Secured Bonds	A3	A-	A-
Commercial Paper	P-2	A-2	F2
Preferred Stock	Baa3	BBB	BBB+
Preference Stock	Baa3	BBB	BBB
Outlook	STABLE	STABLE	STABLE
PPL Transition Bond Company			
Transition Bonds	Aaa	AAA	AAA

(a) Insured as to payment of principal and interest.

(b) Issuer Rating for Fitch is an Issuer Default Ratings.

In March 2006, Moody s upgraded the issuer rating of PPL Electric to Baa1 from Baa2, upgraded the ratings of its First Mortgage Bonds and Senior Secured Bonds to A3 from Baa1 and upgraded the rating of its preferred stock to Baa3 from Ba1.

In connection with PPL Electric s issuance of preference stock in April 2006, S&P affirmed all of PPL Electric s credit ratings.

In August 2006, Fitch affirmed its credit ratings and stable outlook for PPL Electric.

In November 2006, S&P completed its annual review of its credit ratings for PPL Electric. At that time, S&P affirmed its credit ratings and stable outlook for PPL Electric.

Off-Balance Sheet Arrangements

PPL Electric has entered into certain guarantee agreements that are within the scope of FIN 45, Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others, an Interpretation of FASB Statements No. 5, 57, and 107 and Rescission of FASB Interpretation No. 34. See Note 9 to the Financial Statements for a discussion on guarantees.

Risk Management

Market Risk

Commodity Price Risk PLR Contracts

PPL Electric and PPL EnergyPlus have power supply agreements under which PPL EnergyPlus sells to PPL Electric (under a predetermined pricing arrangement) energy and capacity to fulfill PPL Electric s PLR obligation through 2009. As a result, PPL Electric has shifted any electric price risk relating to its PLR obligation to PPL EnergyPlus through 2009. See Note 10 to the Financial Statements for information on the PLR contracts.

Interest Rate Risk

PPL Electric has issued debt to finance its operations, which increases its interest rate risk. At December 31, 2006 and 2005, PPL Electric s potential annual exposure to increased interest expense, based on a 10% increase in interest rates, was not significant.

PPL Electric is also exposed to changes in the fair value of its debt portfolio. At December 31, 2006, PPL Electric estimated that its potential exposure to a change in the fair value of its debt portfolio, through a 10% adverse movement in interest rates, was $37 million, compared with $43 million at December 31, 2005.

Related Party Transactions

PPL Electric is not aware of any material ownership interests or operating responsibility by senior management of PPL Electric in outside partnerships, including leasing transactions with variable interest entities, or other entities doing business with PPL Electric.

For additional information on related party transactions, see Note 10 to the Financial Statements.

Environmental Matters

See Note 9 to the Financial Statements for a discussion of environmental matters.

New Accounting Standards

See Note 17 to the Financial Statements for a discussion of new accounting standards recently adopted or pending adoption.

Application of Critical Accounting Policies

PPL Electric s financial condition and results of operations are impacted by the methods, assumptions and estimates used in the application of critical accounting policies. The following accounting policies are particularly important to the financial condition or results of operations of PPL Electric, and require estimates or other judgments of matters inherently uncertain. Changes in the estimates or other judgments included within these accounting policies could result in a significant change to the information presented in the Financial Statements. (These accounting policies are also discussed in Note 1 to the Financial Statements.) PPL s senior management has reviewed these critical accounting policies, and the estimates and assumptions regarding them, with its Audit Committee. In addition, PPL s senior management has reviewed the following disclosures regarding the application of these critical accounting policies with the Audit Committee.

In September 2006, the FASB issued SFAS 157, Fair Value Measurements. Among other things, SFAS 157 provides a definition of fair value as well as a framework for measuring fair value. PPL Electric must adopt SFAS 157 no later than January 1, 2008. The adoption of SFAS 157 is expected to impact the fair value component of PPL Electric s critical accounting policy related to Pension and Other Postretirement Benefits. See Note 17 to the Financial Statements for additional information regarding SFAS 157.

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1) Pension and Other Postretirement Benefits

As described in Note 8 to the Financial Statements, PPL Electric participates in, and is allocated a significant portion of the liability and net periodic pension and other postretirement costs of plans sponsored by PPL Services based on participation in those plans. PPL follows the guidance of SFAS 87, Employers Accounting for Pensions, and SFAS 106, Employers Accounting for Postretirement Benefits Other Than Pensions, when accounting for these benefits. In addition, PPL adopted the recognition and measurement date provisions of SFAS 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans, effective December 31, 2006. See Note 8 to the Financial Statements for further details. Under these accounting standards, assumptions are made regarding the valuation of benefit obligations and performance of plan assets. Delayed recognition in earnings of differences between actual results and expected or estimated results is a guiding principle of these standards. This delayed recognition of actual results allows for a smoothed recognition of costs over the working lives of the employees who benefit under the plans. The primary assumptions are:

Discount Rate The discount rate is used in calculating the present value of benefits, which are based on projections of benefit payments to be made in the future. The objective in selecting the discount rate is to measure the single amount that, if invested at the measurement date in a portfolio of high-quality debt instruments, would provide the necessary future cash flows to pay the accumulated benefits when due.

Expected Return on Plan Assets Management projects the future return on plan assets considering prior performance, but primarily based upon the plans mix of assets and expectations for the long-term returns on those asset classes. These projected returns reduce the net benefit costs PPL Electric records currently.

Rate of Compensation Increase Management projects employees annual pay increases, which are used to project employees pension benefits at retirement.

Health Care Cost Trend Rate Management projects the expected increases in the cost of health care.

In selecting a discount rate for its domestic pension and other postretirement plans, PPL starts with an analysis of the expected benefit payment stream for its plans. This information is first matched against a spot-rate yield curve. A portfolio of over 500 Moody s Aa-graded non-callable (or callable with make-whole provisions) bonds, with a total amount outstanding in excess of $370 billion, serves as the base from which those with the lowest and highest yields are eliminated to develop the ultimate yield curve. The results of this analysis are considered in conjunction with other economic data and consideration of movements in the Moody s Aa bond index to determine the discount rate assumption. At December 31, 2006, PPL increased the discount rate for its domestic plans from 5.70% to 5.94%.

In selecting an expected return on plan assets, PPL considers tax implications, past performance and economic forecasts for the types of investments held by the plans. At December 31, 2006, PPL s expected return on plan assets remained at 8.50% for its domestic pension plans and decreased to 7.75% from 8.00% for its other postretirement benefit plans.

In selecting a rate of compensation increase, PPL considers past experience in light of movements in inflation rates. At December 31, 2006, PPL s rate of compensation increase remained at 4.75% for its domestic plans.

In selecting health care cost trend rates, PPL considers past performance and forecasts of health care costs. At December 31, 2006, PPL s health care cost trend rates were 9.0% for 2007, gradually declining to 5.5% for 2012.

A variance in the assumptions listed above could have a significant impact on the accrued pension and other postretirement benefit liabilities and reported annual net periodic pension and other postretirement benefit cost allocated to PPL Electric. The following chart reflects the sensitivities in the 2006 financial statements associated with a change in certain assumptions based on PPL s primary pension and other postretirement plans. While the chart below reflects either an increase or decrease in each assumption, the inverse of this change would impact the accrued pension and other postretirement benefit liabilities and reported annual net periodic pension and other postretirement benefit cost by a similar amount in the opposite direction. Each sensitivity below reflects an evaluation of the change based solely on a change in that assumption and does not include income tax effects.

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Actuarial Assumption	Change in Assumption	Increase (Decrease) Impact on Liabilities	Impact on Cost	Impact on OCI
Discount Rate	(0.25)%	$ 32	$ 1	$ 31
Expected Return on Plan Assets	(0.25)%	N/A	2	(2)
Rate of Compensation Increase	0.25%	6	1	6
Health Care Cost Trend Rate (a)	1.0%	8	1	7

(a) Only impacts other postretirement benefits.

At December 31, 2006, PPL Electric s Balance Sheet reflected a net liability of $133 million for pension and other postretirement benefits allocated from plans sponsored by PPL Services.

In 2006, PPL Electric was allocated net periodic pension and other postretirement costs charged to operating expense of $15 million. This amount represents a $4 million increase compared with the charge recognized during 2005. This increase was primarily due to updated demographic assumptions, primarily due to updating the mortality table used to measure obligation and cost.

Refer to Note 8 to the Financial Statements for additional information regarding pension and other postretirement benefits.

2) Loss Accruals

PPL Electric periodically accrues losses for the estimated impacts of various conditions, situations or circumstances involving uncertain outcomes. PPL Electric s accounting for such events is prescribed by SFAS 5, Accounting for Contingencies, and other related accounting guidance. SFAS 5 defines a contingency as an existing condition, situation, or set of circumstances involving uncertainty as to possible gain or loss to an enterprise that will ultimately be resolved when one or more future events occur or fail to occur.

For loss contingencies, the loss must be accrued if (1) information is available that indicates it is probable that the loss has been incurred, given the likelihood of the uncertain future events and (2) the amount of the loss can be reasonably estimated. The FASB defines probable as cases in which the future event or events are likely to occur. SFAS 5 does not permit the accrual of contingencies that might result in gains. PPL Electric continuously assesses potential loss contingencies for environmental remediation, litigation claims, income taxes, regulatory penalties and other events.

The accounting aspects of estimated loss accruals include: (1) the initial identification and recording of the loss; (2) the determination of triggering events for reducing a recorded loss accrual; and (3) the ongoing assessment as to whether a recorded loss accrual is sufficient. All three of these aspects of accounting for loss accruals require significant judgment by PPL Electric s management.

Initial Identification and Recording of the Loss Accrual

PPL Electric uses its internal expertise and outside experts (such as lawyers, tax specialists and engineers), as necessary, to help estimate the probability that a loss has been incurred and the amount (or range) of the loss.

In 2005, a significant loss accrual was initially recorded for the PJM billing dispute. Significant judgment was required by PPL Electric s management to perform the initial assessment of this contingency. In 2004, Exelon Corporation, on behalf of its subsidiary, PECO Energy, Inc. (PECO), filed a complaint against PJM and PPL Electric with the FERC, alleging that PJM had overcharged PECO from April 1998 through May 2003 as a result of an error by PJM. The complaint requested the FERC, among other things, to direct PPL Electric to refund to PJM $39 million, plus interest of $8 million, and for PJM to refund these same amounts to PECO. In April 2005, the FERC issued an Order Establishing Hearing and Settlement Judge Proceedings (the Order). In the Order, the FERC determined that PECO was entitled to reimbursement for the transmission congestion charges that PECO asserted PJM erroneously billed. The FERC ordered settlement discussions, before a judge, to determine the amount of the overcharge to PECO and the parties responsible for reimbursement to PECO.

Based on an evaluation of the FERC Order, PPL Electric s management concluded that it was probable that a loss had been incurred in connection with the PJM billing dispute. PPL Electric recorded a loss accrual of $47 million,

the amount of PECO s claim, in the first quarter of 2005. See Note 9 to the Financial Statements for additional information.

See Ongoing Assessment of Recorded Loss Accruals for a discussion of the year-end assessments of this contingency.

PPL Electric has identified certain other events that could give rise to a loss, but that do not meet the conditions for accrual under SFAS 5. SFAS 5 requires disclosure, but not a recording, of potential losses when it is reasonably possible that a loss has been incurred. The FASB defines reasonably possible as cases in which the chance of the future event or events occurring is more than remote but less than likely. See Note 9 to the Financial Statements for disclosure of other potential loss contingencies that have not met the criteria for accrual under SFAS 5.

Reducing Recorded Loss Accruals

When an estimated loss is accrued, PPL Electric identifies, where applicable, the triggering events for subsequently reducing the loss accrual. The triggering events generally occur when the contingency has been resolved and the actual loss is incurred, or when the risk of loss has diminished or been eliminated. The following are some of the triggering events that provide for the reduction of certain recorded loss accruals:

Allowances for excess or obsolete inventory are reduced as the inventory items are pulled from the warehouse shelves and sold as scrap or otherwise disposed.

Allowances for uncollectible accounts are reduced when accounts are written off after prescribed collection procedures have been exhausted, a better estimate of the allowance is determined or when underlying amounts are ultimately collected.

Environmental and other litigation contingencies are reduced when the contingency is resolved and PPL Electric makes actual payments, a better estimate of the loss is determined or the loss is no longer considered probable.

Ongoing Assessment of Recorded Loss Accruals

PPL Electric reviews its loss accruals on a regular basis to assure that the recorded potential loss exposures are sufficient. This involves ongoing communication and analyses with internal and external legal counsel, engineers, tax specialists, operation management and other parties.

As part of the year-end preparation of its financial statements, PPL Electric s management re-assessed the loss accrual related to the PJM billing dispute, described above under Initial Identification and Recording of the Loss Accrual. See Note 9 to the Financial Statements for additional information.

In March 2006, the FERC rejected the proposed settlement agreement that was filed with the FERC in September 2005. Subsequently, in March 2006, PPL Electric and Exelon filed with the FERC a new proposed settlement agreement. In November 2006, the FERC entered an order accepting the March 2006 proposed settlement agreement, upon the condition that PPL Electric agree to certain modifications. In December 2006, PPL Electric and Exelon filed with the FERC a modified offer of settlement (Compliance Filing). Under the Compliance Filing, which must be approved by the FERC, PPL Electric would make a single payment through its monthly PJM bill of $38 million, plus interest through the date of payment, and PJM would include a single credit for this amount in PECO s monthly PJM bill. Through December 31, 2006, the estimated interest on this payment would be $4 million, for a total payment of $42 million. As a result, PPL Electric reduced the recorded loss accrual to $42 million at December 31, 2006. Based on the terms of the latest settlement agreement and the effective date and provisions of power supply agreements between PPL Electric and PPL EnergyPlus, PPL has determined that PPL Electric is responsible for the claims prior to

July 1, 2000 (totaling $12 million), and that PPL EnergyPlus is responsible for the claims subsequent to that date (totaling $30 million). Therefore, PPL Electric recorded a receivable from PPL EnergyPlus of $30 million at December 31, 2006, for the portion of claims allocated to PPL EnergyPlus. As a result of the reduction of the loss accrual and allocation to PPL EnergyPlus, PPL Electric recorded credits to expense of $35 million, including $28 million of Energy purchases and $7 million of Interest Expense on the Statement of Income. PPL Electric s management will continue to assess the loss accrual for this contingency in future periods.

Income Tax Uncertainties

Significant management judgment is required in developing PPL Electric s contingencies, or reserves, for income taxes and valuation allowances for deferred tax assets. The ongoing assessment of tax contingencies is intended to

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result in management s best estimate of the ultimate settled tax position for each tax year. Annual tax provisions include amounts considered sufficient to pay assessments that may result from examination of prior year tax returns by taxing authorities. However, the amount ultimately paid upon resolution of any issues raised by such authorities may differ from the amount accrued. In evaluating the exposure associated with various filing positions, PPL Electric accounts for changes in probable exposures based on management s best estimate of the amount of benefit that should be recognized in the financial statements. An allowance is maintained for the tax contingencies, the balance of which management believes to be adequate. The ongoing assessment of valuation allowances is based on an assessment of whether deferred tax assets will ultimately be realized. Management considers a number of factors in assessing the ultimate realization of deferred tax assets, including forecasts of taxable income in future periods.

In June 2006, the FASB issued FIN 48, Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109. PPL Electric adopted FIN 48 effective January 1, 2007. The adoption of FIN 48 alters the methodology PPL Electric currently uses to account for income tax uncertainties. Effective with the adoption of FIN 48, uncertain tax positions are no longer considered to be contingencies under SFAS 5. See Note 17 to the Financial Statements for a more detailed discussion of FIN 48 and for information regarding the expected impact of adoption.

Other Information

PPL s Audit Committee has approved the independent auditor to provide audit and audit-related services and other services permitted by the Sarbanes-Oxley Act of 2002 and SEC rules. The audit and audit-related services include services in connection with statutory and regulatory filings, reviews of offering documents and registration statements, and internal control reviews.

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareowners of PPL Electric Utilities Corporation

We have audited the accompanying consolidated balance sheet and statement of long-term debt of PPL Electric Utilities Corporation and subsidiaries as of December 31, 2006, and the related consolidated statements of income, shareowners equity, and cash flows for the year then ended. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of PPL Electric Utilities Corporation and subsidiaries at December 31, 2006, and the consolidated results of their operations and their cash flows for the year ended December 31, 2006, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 17 to the consolidated financial statements, the Company adopted FASB Statement No. 158, *Employers Accounting for Defined Benefit Pension and Other Postretirement Plans*, effective December 31, 2006.

Philadelphia, Pennsylvania
February 26, 2007

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareowner
of PPL Electric Utilities Corporation:

In our opinion, the accompanying consolidated balance sheet and consolidated statement of long-term debt and the related consolidated statements of income, of shareowners common equity and of cash flows present fairly, in all material respects, the financial position of PPL Electric Utilities Corporation and its subsidiaries (the Company) at December 31, 2005, and the results of their operations and their cash flows for each of the two years in the period ended December 31, 2005 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 15 to the consolidated financial statements, the Company adopted FASB Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations,* in 2005.

Philadelphia, Pennsylvania
February 24, 2006

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CONSOLIDATED STATEMENTS OF INCOME FOR THE YEARS ENDED DECEMBER 31,
PPL Electric Utilities Corporation and Subsidiaries
(Millions of Dollars)

	2006	2005	2004
Operating Revenues			
Retail electric	**$ 3,099**	$ 3,011	$ 2,687
Wholesale electric	**3**	4	6
Wholesale electric to affiliate (Note 10)	**157**	148	154
Total	**3,259**	3,163	2,847
Operating Expenses			
Operation			
Energy purchases	**175**	256	207
Energy purchases from affiliate (Note 10)	**1,708**	1,590	1,500
Other operation and maintenance	**369**	375	365
Amortization of recoverable transition costs	**282**	268	257
Depreciation (Note 1)	**118**	112	107
Taxes, other than income (Note 2)	**189**	185	152
Total	**2,841**	2,786	2,588
Operating Income	**418**	377	259
Other Income net (Note 11)	**31**	21	15
Interest Expense	**134**	170	187
Interest Expense with Affiliate (Note 10)	**17**	12	3
Income Before Income Taxes	**298**	216	84
Income Taxes (Note 2)	**104**	69	8
Net Income	**194**	147	76
Dividends on Preferred Securities	**14**	2	2
Income Available to PPL	**$ 180**	$ 145	$ 74

The accompanying Notes to Consolidated Financial Statements are an integral part of the financial statements.

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CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31,
PPL Electric Utilities Corporation and Subsidiaries
(Millions of Dollars)

	2006	2005	2004
Cash Flows from Operating Activities			
Net income	**$ 194**	$ 147	$ 76
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation	**118**	112	107
Stock compensation expense	**4**	7	3
Amortizations recoverable transition costs and other	**303**	289	278
Deferred income taxes and investment tax credits	**17**	9	81
Realization of benefits related to Black Lung Trust assets	**(36)**		
Accrual for PJM billing dispute	**(35)**	47	
Write-off (deferral) of storm-related costs	**11**	(12)	4
Change in current assets and current liabilities			
Accounts receivable	**11**	(38)	40
Accounts payable	**22**	11	50
Collateral on PLR energy supply (Note 10)			302
Other	**(18)**	2	(7)
Other operating activities			
Other assets	**(1)**	(6)	(3)
Other liabilities	**(12)**	12	(33)
Net cash provided by operating activities	**578**	580	898
Cash Flows from Investing Activities			
Expenditures for property, plant and equipment	**(289)**	(174)	(179)
Purchases of marketable securities	**(143)**	(32)	(60)
Proceeds from the sale of marketable securities	**143**	17	50
Net increase in notes receivable from affiliate			(300)
Net increase in restricted cash	**(2)**	(10)	(35)
Other investing activities	**4**	6	1
Net cash used in investing activities	**(287)**	(193)	(523)
Cash Flows from Financing Activities			
Issuance of preference stock, net of issuance costs	**245**		
Issuance of long-term debt		424	
Retirement of long-term debt	**(433)**	(559)	(394)
Contribution from PPL	**75**		
Repurchase of common stock from PPL	**(200)**		
Payment of common stock dividends to PPL	**(116)**	(93)	(24)
Net increase in short-term debt			42

Other financing activities	**(10)**	(12)	(10)
Net cash used in financing activities	**(439)**	(240)	(386)
Net (Decrease) Increase in Cash and Cash Equivalents	**(148)**	147	(11)
Cash and Cash Equivalents at Beginning of Period	**298**	151	162
Cash and Cash Equivalents at End of Period	**$ 150**	$ 298	$ 151
Supplemental Disclosures of Cash Flow Information			
Cash paid (received) during the period for:			
Interest	**$ 137**	$ 156	$ 180
Income taxes net	**$ 122**	$ 21	$ (69)

The accompanying Notes to Consolidated Financial Statements are an integral part of the financial statements.

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CONSOLIDATED BALANCE SHEETS AT DECEMBER 31,
PPL Electric Utilities Corporation and Subsidiaries
(Millions of Dollars)

	2006	2005
Assets		
Current Assets		
Cash and cash equivalents	**$ 150**	$ 298
Restricted cash (Note 13)	**43**	42
Accounts receivable (less reserve: 2006, $19; 2005, $20)	**219**	224
Unbilled revenues	**163**	174
Accounts receivable from affiliates	**6**	10
Note receivable from affiliate (Note 10)	**300**	300
Prepayments	**3**	4
Prepayment on PLR energy supply from affiliate (Note 10)	**12**	12
Other	**101**	87
Total Current Assets	**997**	1,151
Property, Plant and Equipment (Note 1)		
Electric plant in service		
Transmission and distribution	**4,163**	4,034
General	**412**	356
	4,575	4,390
Construction work in progress	**95**	43
Electric plant	**4,670**	4,433
Other property	**3**	3
	4,673	4,436
Less: accumulated depreciation	**1,793**	1,720
Total Property, Plant and Equipment	**2,880**	2,716
Regulatory and Other Noncurrent Assets (Note 1)		
Recoverable transition costs	**884**	1,165
Acquired intangibles (Note 14)	**118**	114
Prepayment on PLR energy supply from affiliate (Note 10)	**23**	35
Other	**413**	356
Total Regulatory and Other Noncurrent Assets	**1,438**	1,670

Total Assets	**$ 5,315**	$ 5,537

The accompanying Notes to Consolidated Financial Statements are an integral part of the financial statements.

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CONSOLIDATED BALANCE SHEETS AT DECEMBER 31,
PPL Electric Utilities Corporation and Subsidiaries
(Millions of Dollars)

	2006	2005
Liabilities and Equity		
Current Liabilities		
Short-term debt (Note 5)	**$ 42**	$ 42
Long-term debt	**555**	434
Accounts payable	**53**	42
Accounts payable to affiliates	**164**	183
Taxes	**58**	76
Collateral on PLR energy supply from affiliate (Note 10)	**300**	300
Other	**141**	147
Total Current Liabilities	**1,313**	1,224
Long-term Debt	**1,423**	1,977
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes and investment tax credits (Note 2)	**814**	771
Other	**206**	190
Total Deferred Credits and Other Noncurrent Liabilities	**1,020**	961
Commitments and Contingent Liabilities (Note 9)		
Shareowners Equity		
Preferred securities (Note 4)	**301**	51
Common stock no par value (a) (b)	**364**	1,476
Additional paid-in capital	**424**	354
Treasury stock (a) (b)		(912)
Earnings reinvested	**470**	406
Total Shareowners Equity	**1,559**	1,375
Total Liabilities and Equity	**$ 5,315**	$ 5,537

(a) 170 million shares authorized; 66 million shares issued and outstanding at December 31, 2006, and 78 million shares issued and outstanding, excluding 79 million shares held as treasury stock, at December 31, 2005.

(b) See Note 1 for additional information on the retirement of all treasury stock in 2006.

The accompanying Notes to Consolidated Financial Statements are an integral part of the financial statements.

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CONSOLIDATED STATEMENTS OF SHAREOWNERS EQUITY
FOR THE YEARS ENDED DECEMBER 31,
PPL Electric Utilities Corporation and Subsidiaries
(Millions of Dollars, except share amounts)

	2006	2005	2004
Preferred securities at beginning of year	**$ 51**	$ 51	$ 51
Issuance of preference stock	**250**		
Preferred securities at end of year	**301**	51	51
Common stock at beginning of year	**1,476**	1,476	1,476
Retirement of treasury stock	**(1,112)**		
Common stock at end of year	**364**	1,476	1,476
Additional paid-in capital at beginning of year	**354**	354	354
Capital contribution from PPL	**75**		
Capital stock expense	**(5)**		
Additional paid-in capital at end of year	**424**	(4)	

Mr. Horan beneficially owns (i) 78 shares of common stock exercisable upon the exercise of stock options that are exercisable or will be exercisable within 60 days of November 30, 2016 at $8,000.00 per share; (ii) 31 shares of common stock exercisable upon the exercise of stock options that are exercisable or will be exercisable within 60 days of July 20, 2016 at $2,000.00 per share; (iii) 19 shares of common stock exercisable upon the exercise of stock options that are exercisable or will be exercisable within 60 days of November 30, 2016 at $1,200.00 per share; (iv) 14 shares of common stock exercisable upon the exercise of stock options that are exercisable or will be exercisable within 60 days of November 30, 2016 at $3,088.00 per share; (v) 31 shares of common stock exercisable upon the exercise of stock options that are exercisable or will be exercisable within 60 days of November 30, 2016 at $1,968.00 per share, (vi) 21 shares of common stock exercisable upon the exercise of stock options that are exercisable or will be exercisable within 60 days of November 30, 2016 at $976.00 per share, (vii) 20 shares of common stock exercisable upon the exercise of stock options that are exercisable or will be exercisable within 60 days of November 30, 2016 at $1,040.00 per share, (viii) 1,939 shares of common stock exercisable upon the exercise of stock options that are exercisable or will be exercisable within 60 days of November 30, 2016 at $89.46 per share, (ix) 5,000 shares of common stock issuable upon the exercise of options that are exercisable or will be exercisable within 60 days of November 30, 2016 at $46.60 per share, (x) 280 shares of common stock issuable upon the exercise of options that are exercisable or will be exercisable within 60 days of November 30, 2016 at $9.20 per share and (xi) 2,952 shares of common stock.

(5) Mr. Meyer beneficially owns (i) 20 shares of common stock exercisable upon the exercise of stock options that are exercisable or will be exercisable within 60 days of November 30, 2016 at $976.00 per share, (ii) 22 shares of common stock exercisable upon the exercise of stock options that are exercisable or will be exercisable within 60

days of November 30, 2016 at $1,040.00 per share, (iii) 2,194 shares of common stock exercisable upon the exercise of stock options that are exercisable or will be exercisable within 60 days of November 30, 2016 at $89.20 per share, (iv) 2,500 shares of common stock exercisable upon the exercise of stock options that are exercisable or will be exercisable within 60 days of November 30, 2016 at $46.60 per share, (v) 3,166 shares of common stock exercisable upon the exercise of stock options that are exercisable or will be exercisable within 60 days of November 30, 2016 at $46.60 per share and (vi) 2,952 shares of common stock.

(6) Mr. Nelson beneficially owns 1,622 shares of common stock.

(7) Ms. Sock beneficially owns (i) 18 shares of common stock exercisable upon the exercise of stock options that are exercisable or will be exercisable within 60 days of November 30, 2016 at $1,200.00 per share; (ii) 31 shares of common stock exercisable upon the exercise of stock options that are exercisable or will be exercisable within 60 days of November 30, 2016 at $1,968.00 per share, (iii) 20 shares of common stock exercisable upon the exercise of stock options that are exercisable or will be exercisable within 60 days of November 30, 2016 at $976.00 per share, (iv) 19 shares of common stock exercisable upon the exercise of stock options that are exercisable or will be exercisable within 60 days of November 30, 2016 at $1,040.00 per share, (v) 1,847 shares of common stock exercisable upon the exercise of stock options that are exercisable or will be exercisable within 60 days of November 30, 2016 at $89.20 per share, (vi) 750 shares of common stock issuable upon the exercise of stock options that are exercisable or that are exercisable within 60 days of November 30, 2016 at $46.60 per share, (vii) 2,700 shares of common stock issuable upon the exercise of stock options that are exercisable or that are exercisable within 60 days of November 30, 2016 at $9.20 per share, (viii) 8,334 shares of restricted stock issued pursuant to the 2011 Executive Equity Incentive Plan, which will vest within 60 days of November 30, 2016; and (ix) 16 shares of common stock.

INDEMNIFICATION FOR SECURITIES ACT LIABILITIES
Section 145 of the Delaware General Corporation Law, as amended, authorizes us to indemnify any director or officer under certain prescribed circumstances and subject to certain limitations against certain costs and expenses, including attorney's fees actually and reasonably incurred in connection with any action, suit or proceeding, whether civil, criminal, administrative or investigative, to which a person is a party by reason of being one of our directors or officers if it is determined that such person acted in accordance with the applicable standard of conduct set forth in such statutory provisions. Our certificate of incorporation contains provisions relating to the indemnification of director and officers and our by-laws extend such indemnities to the full extent permitted by Delaware law. We may also purchase and maintain insurance for the benefit of any director or officer, which may cover claims for which we could not indemnify such persons.
Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers or persons controlling us pursuant to the foregoing provisions, or otherwise, we have been advised that in the opinion of the SEC, such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable.
LEGAL MATTERS
The validity of the common stock being offered hereby will be passed upon for us by Reed Smith LLP, New York, New York.

EXPERTS
The consolidated financial statements as of June 30, 2016 and 2015 and for each of the years then ended included in this Registration Statement, of which this Prospectus forms a part, have been so included in reliance on the report of BDO USA, LLP, an independent registered public accounting firm (the report on the consolidated financial statements contains an explanatory paragraph regarding the Company's ability to continue as a going concern) appearing elsewhere herein, given on the authority of said firm as experts in auditing and accounting.
WHERE YOU CAN FIND MORE INFORMATION
We file annual reports, quarterly reports, current reports, proxy statements and other information with the Securities and Exchange Commission ("SEC"). You may read or obtain a copy of these reports at the SEC's public reference room at 100 F Street, N.E., Washington, D.C. 20549, on official business days during the hours of 10:00 am to 3:00 pm. You may obtain information on the operation of the public reference room and its copy charges by calling the SEC at 1-800-SEC-0330. The SEC maintains a website that contains registration statements, reports, proxy information statements and other information regarding registrants that file electronically with the SEC, which are available free of charge. The address of the website is http://www.sec.gov.
We have filed with the SEC a registration statement on Form S-1 under the Securities Act with respect to the shares of common stock and warrants being offered by this prospectus. This prospectus is part of that registration statement. This prospectus does not contain all of the information set forth in the registration statement or the exhibits to the registration statement. For further information with respect to us and the shares we are offering pursuant to this prospectus, you should refer to the registration statement and its exhibits. Statements contained in this prospectus as to the contents of any contract, agreement or other document referred to are not necessarily complete, and you should refer to the copy of that contract or other documents filed as an exhibit to the registration statement. You may read or obtain a copy of the registration statement at the SEC's public reference room and website referred to above.

INFORMATION INCORPORATED BY REFERENCE
All documents that we subsequently file with the SEC pursuant to Section 13(a), 13(c), 14 or 15(d) of the Exchange Act after the effective date of the registration statement of which this prospectus forms a part and prior to the termination of this offering (unless we specifically provide otherwise in each case, and excluding any information furnished and not filed with the SEC) will be deemed to be incorporated by reference into this prospectus. Information that we file with the SEC will automatically update and may replace information previously filed with the SEC.
We will provide without charge to each person, including any beneficial owner, to whom this prospectus is delivered, upon his or her written or oral request, a copy of any or all reports or documents referred to above which have been or may be incorporated by reference into this prospectus but not delivered with this prospectus excluding exhibits to

those documents unless they are

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specifically incorporated by reference into those documents. You can request those documents from us, at no cost, by writing or telephoning us at: Function(x) Inc., 902 Broadway, 11th Floor, New York, New York 10010 or by calling (212) 231-0092.

You also may access the incorporated reports and other documents referenced above on our website at www.functionxinc.com The information contained on, or that can be accessed through, our website is not part of this prospectus.

Information furnished under Items 2.02 or 7.01 (or corresponding information furnished under Item 9.01 or included as an exhibit) in any past or future Current Report on Form 8-K that we file with the SEC, unless otherwise specified in such report, is not incorporated by reference in this prospectus.

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As used in this report:

- "Function(x)" refers to Function(x) Inc., a Delaware corporation formerly known as DraftDay Fantasy Sports Inc. and Viggle Inc. (also herein referred to as "the Company")
- "App" refers to the free Viggle application (also herein referred to as the "Viggle App")
- "We", "us" and "our" refer to Function(x) and its subsidiaries, individually, or in any combination
- "SFX" refers to SFX Entertainment Inc., a company affiliated with Robert F.X. Sillerman, the Company's Executive Chairman, Chief Executive Officer, and a Director (hereinafter, "Mr. Sillerman")
- "SIC" refers to Sillerman Investment Company, LLC, a company affiliated with Mr. Sillerman
- "SIC II" refers to Sillerman Investment Company II, LLC, a company affiliated with Mr. Sillerman
- "SIC III" refers to Sillerman Investment Company III, LLC, a company affiliated with Mr. Sillerman
- "SIC IV" refers to Sillerman Investment Company IV, LLC, a company affiliated with Mr. Sillerman
- "SIC VI" refers to Sillerman Investment Company VI, LLC, a company affiliated with Mr. Sillerman
- "Reverse Stock Split" refers to the reverse stock split effected on September 16, 2016, whereby shareholders are entitled to receive one share for each 20 shares of the Company's common stock.

All dollar amounts in this report, except per share amounts, unless indicated otherwise, are in thousands.

FINANCIAL STATEMENTS

Function(x) Inc.
CONSOLIDATED BALANCE SHEETS
(amounts in thousands, except share data)

	September 30, 2016 (Unaudited)	June 30, 2016
Assets		
Current assets:		
Cash and cash equivalents	$ 827	$ 537
Marketable securities	—	2,495
Accounts receivable (net of allowance for doubtful accounts of $20 at September 30, 2016 and June 30, 2016)	383	307
Prepaid expenses	53	226
Other receivables	127	114
Other current assets	14	110
Current assets of discontinued operations	20	39
Total current assets	1,424	3,828
Restricted cash	435	440
Property & equipment, net	1,337	1,414
Intangible assets, net	10,229	5,339
Goodwill	18,859	11,270
Other assets	786	748
Total assets	$ 33,070	$ 23,039
Liabilities, convertible redeemable preferred stock and stockholders' equity/(deficit)		
Current liabilities:		
Accounts payable and accrued expenses	$ 9,484	$ 11,625
Deferred revenue	682	637
Current portion of loans payable, net	8,853	8,996
Current liabilities of discontinued operations	2,830	2,851
Total current liabilities	21,849	24,109
Loans payable, less current portion	—	19,716
Deferred revenue	3,229	3,429
Common stock warrant liability	1,510	10
Other long-term liabilities	929	951
Total liabilities	27,517	48,215
Series A Convertible Redeemable Preferred Stock, $1,000 stated value, authorized 100,000 shares, issued and outstanding -0- shares as of September 30, 2016 and June 30, 2016	—	—
Commitments and contingencies	—	—
Stockholders' equity/(deficit):		
Series B Convertible Preferred Stock, $1,000 stated value, authorized 50,000 shares, issued and outstanding -0- shares as of September 30, 2016 and June 30, 2016	—	—
Series C Convertible Redeemable Preferred Stock, $1,000 stated value, authorized 100,000 shares, issued and outstanding of 33,175 and 3,000 shares as of September 30, 2016 and June 30,	33,912	4,940

2016, respectively		
Series D Preferred Stock, $1,000 stated value, authorized 150 shares, issued and outstanding -0- shares as of September 30, 2016 and June 30, 2016	—	—

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Function(x) Inc.
CONSOLIDATED BALANCE SHEETS
(amounts in thousands, except share data)

	September 30, 2016 (Unaudited)	June 30, 2016
Series E Convertible Preferred Stock, $1,000 stated value, authorized 10,000 shares, issued and outstanding 4,435 and -0- shares as of September 30, 2016 and June 30, 2016, respectively	7,600	—
Common stock, $0.001 par value: authorized 300,000,000 shares, issued and outstanding 3,056,353 and 3,023,753 shares as of September 30, 2016 and June 30, 2016, respectively	3	3
Additional paid-in-capital	410,995	409,765
Treasury stock, 10,758 shares at September 30, 2016 and June 30, 2016	(11,916)	(11,916)
Accumulated deficit	(435,650)	(428,380)
Accumulated other comprehensive income	—	(361)
Noncontrolling interest	609	773
Total stockholders' equity/(deficit)	5,553	(25,176)
Total liabilities and stockholders' equity/(deficit)	$ 33,070	$ 23,039

See accompanying Notes to Consolidated Financial Statements

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Function(x) Inc.
CONSOLIDATED STATEMENTS OF OPERATIONS
(amounts in thousands, except share and per share data)
(Unaudited)

	Three Months Ended September 30,	
	2016	2015
Revenues	$659	$922
Selling, general and administrative expenses	(4,040)	(7,700)
Operating loss	(3,381)	(6,778)
Other expense:		
Other (expense)/income, net	(2,485)	2
Interest expense, net	(1,651)	(856)
Total other expense	(4,136)	(854)
Net loss before provision for income taxes	(7,517)	(7,632)
Income tax expense	—	—
Net loss from continuing operations	$(7,517)	$(7,632)
Net loss from discontinued operations	(36)	(5,780)
Net loss	(7,553)	(13,412)
Accretion of Convertible Redeemable Preferred Stock	22	74
Undeclared Series C Convertible Redeemable Preferred Stock Dividend	(494)	(307)
Add: Net loss attributable to non-controlling interest	283	168
Net loss attributable to Function(x) Inc. common stockholders	$(7,742)	$(13,477)
Net loss per common share - basic and diluted:		
Continuing operations	$(2.52)	$(6.46)
Discontinued operations	$(0.01)	$(4.85)
Net loss per share attributable to Function(x) Inc. common stockholders - basic and diluted	$(2.53)	$(11.31)
Weighted average common shares outstanding - basic and diluted	3,053,796	1,191,434

See accompanying Notes to Consolidated Financial Statements

F-4

Function(x) Inc.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(amounts in thousands)
(Unaudited)

	Three Months Ended September 30,	
	2016	2015
Net loss	$(7,553)	$(13,412)
Other comprehensive income, net of tax:		
Unrealized loss on available for sale securities	(289)	—
Reclass of available for sale securities to Consolidated Statements of Operations	650	—
Other comprehensive income	361	—
Comprehensive loss	$(7,192)	$(13,412)

See accompanying Notes to Consolidated Financial Statements

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Function(x) Inc.
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY/(DEFICIT)
(amounts in thousands)
(Unaudited)

	Common Stock	Series C Preferred Stock	Series E Preferred Stock	Additional Paid-In Capital	Treasury Stock	Accumulated Other Comprehensive Loss	Accumulated Deficit	Non-controlling Interest	Total
Balance July 1, 2016	$ 3	$4,940	$ —	$409,765	$(11,916)	$ (361)	$(428,380)	$ 773	$(25,176)
Net loss							(7,270)	(283)	(7,553)
Unrealized loss on marketable securities						(289)			(289)
Sale of Perk shares						650			650
Termination of Sportech MSA								119	119
Issuance of Series C shares		28,500		1,675					30,175
Issuance of Series E shares			7,600						7,600
Accretion of Series C Convertible Redeemable Preferred Stock		(22)		22					—
Undeclared Series C Preferred Stock Dividend		494		(494)					—
Restricted stock - share based compensation				15					15
Employee stock options - share based compensation				12					12
Balance September 30, 2016 (unaudited)	$ 3	$33,912	$ 7,600	$410,995	$(11,916)	$ —	$(435,650)	$ 609	$5,553

See accompanying Notes to Consolidated Financial Statements

Function(x) Inc.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(amounts in thousands)
(Unaudited)

	Three Months Ended September 30,	
	2016	2015
Operating activities:		
Net loss	$(7,553)	$(13,412)
Adjustments to reconcile net loss to net cash used in operating activities:		
Restricted stock - share based compensation	15	4,991
Employee stock options - share based compensation	12	173
Fair value adjustments on loans payable and preferred stock	—	50
Loss on sale of Perk shares and warrants	2,193	—
Depreciation and amortization	687	1,196
Accretion of debt issuance costs and discount	1,075	
Changes in operating assets and liabilities:		
Accounts receivable, net	(76)	732
Other receivables	(13)	106
Prepaid expenses	173	(58)
Other assets	58	(140)
Deferred revenue	(155)	3,082
Accounts payable and accrued expenses	(591)	(30)
Reward points liability	—	(285)
Other liabilities	(21)	92
Net cash used in operating activities	(4,196)	(3,503)
Investing activities:		
Acquisitions, net of cash acquired	—	535
Sale of Perk shares and warrants	1,300	—
Net cash provided by investing activities	1,300	535
Financing activities:		
Proceeds from loans	4,348	5,000
Repayments on loans	(1,162)	(3,000)
Payments related to contingent consideration	—	(1,728)
Net cash provided by financing activities	3,186	272
Net increase (decrease) in cash	290	(2,696)
Cash at beginning of period	537	4,217
Cash at end of period	$827	$1,521
Supplemental cash flow information:		
Cash paid during the period for interest	$30	$—
Non-Cash investing and financing activities:		
Series C conversion with SIC III, SIC IV, and SIC VI notes	$28,500	$—
Series E issuance in connection with the Rant acquisition (Note 6)	7,600	—

Rant Note issuance in connection with the Rant acquisition (Note 6)	3,500	—
Liabilities assumed in connection with Rant acquisition (Note 6)	1,990	—
Common stock and warrants issued for DraftDay acquisition	—	1,757
Common stock and warrants issued for management service contracts	—	3,475

See accompanying Notes to Consolidated Financial Statements

Function(x) Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(amounts in thousands, except share and per share data)
(Unaudited)

1. Basis of Presentation and Consolidation

Overview

On January 27, 2016, Function(x) Inc. ("Company", "Function(x)" and "we") changed its name from Viggle Inc. to DraftDay Fantasy Sports, Inc. ("DraftDay"), and changed its ticker symbol from VGGL to DDAY. On June 10, 2016, the Company changed its name from DraftDay Fantasy Sports, Inc. to Function(x) Inc., and changed its ticker symbol from DDAY to FNCX. It now conducts business under the name Function(x) Inc.

The Consolidated Financial Statements include the accounts of the Company, its wholly-owned subsidiaries, and DraftDay Gaming Group, Inc. ("DDGG"). The Company has nine wholly-owned subsidiaries, Function(x) Inc., Project Oda, Inc., Sports Hero Inc., Loyalize Inc., Viggle Media Inc., VX Acquisition Corp., Nextguide Inc., Wetpaint.com, Inc. ("Wetpaint"), and Choose Digital, Inc. ("Choose Digital"), each a Delaware corporation. DraftDay owns approximately 60% of the issued and outstanding common stock of DDGG, and also appoints a majority of the members of its Board of Directors.

On September 8, 2015, the Company and its newly created subsidiary DraftDay Gaming Group, Inc. (“DDGG”) entered into an Asset Purchase Agreement (the “Asset Purchase Agreement”) with MGT Capital Investments, Inc. (“MGT Capital”) and MGT Sports, Inc. (“MGT Sports”), pursuant to which the Company acquired all of the assets of the DraftDay.com business (the “DraftDay Business” or "DraftDay.com") from MGT Capital and MGT Sports.

In December 2015, as a result of the sale of certain assets to Perk and acquisition of the DraftDay Business, we reorganized the organizational management and oversight of the Company into three segments (see Note 4, Segments). Accordingly, prior period financial information has been recast to confirm to the current period presentation. These changes impacted Note 4: Segments and Note 3: Summary of Significant Accounting Policies, with no impact on consolidated net loss or cash flows in any period.

On February 8, 2016, the Company completed the sale of assets related to the Company’s rewards business, including the Viggle App, in accordance with the Asset Purchase Agreement (the "Perk Agreement") with Perk.com, Inc. ("Perk") entered into on December 13, 2015. Management entered into this binding sales agreement following a strategic decision to divest the operations related to the Viggle App and place greater focus on its remaining businesses. The assets, liabilities and operations related to Loyalize Inc., and Nextguide Inc. (as well as the portion of the assets relating to our discontinued rewards business within the Company) have been classified as discontinued operations on the accompanying consolidated financial statements for all periods presented. In accordance with Accounting Standards Codification ("ASC") No. 205, Presentation of Financial Statements, the inter-segment revenues and expenses related to services provided by Choose Digital to the Viggle rewards business (discontinued operations) are presented at cost in the Consolidated Statements of Operations.

On July 12, 2016, the Company and RACX Inc., a Delaware corporation and wholly-owned subsidiary of the Company (“RACX”), completed an acquisition pursuant to an Asset Purchase Agreement (the “Asset Purchase Agreement”) with Rant, Inc., a Delaware corporation, pursuant to which RACX has acquired the assets of Rant (the “Asset Purchase”) used in the operation of Rant’s Rant.com independent media network and related businesses (the “Rant Assets”). The Company acquired assets of Rant for approximately $1,990 in assumed liabilities, a $3,000 note, and

4,435 shares of Series E Convertible Preferred stock which, upon satisfaction of certain conditions including shareholder approval, will be convertible into shares of our common stock equal to 22% of the fully diluted shares outstanding, in a move to become a market leader in social publishing.

On September 16, 2016,the Company amended its Certificate of Incorporation to effect a reverse stock split of all issued and outstanding shares of common stock at a ratio of 1 for 20 (the "Reverse Stock Split"). Owners of fractional shares outstanding after the Reverse Stock Split will be paid cash for such fractional interests. The effective date of the Reverse Stock Split is September 16, 2016. All common stock share amounts disclosed in these financial statements have been adjusted to reflect the Reverse Stock Split.

Going Concern

These financial statements have been prepared on a going concern basis which assumes the Company's ability to continue to realize its assets and discharge its liabilities in the normal course of business. The Company is unlikely to generate significant revenue

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or earnings in the immediate or foreseeable future. The continuation of the Company as a going concern is dependent upon the continued financial support from its stockholders, the ability of the Company to obtain necessary equity or debt financing to continue development of its business and to generate revenue and the Company's ability to cure the events of default (Note 16, Subsequent Events.) Management intends to raise additional funds through equity and/or debt offerings until sustainable revenues are developed. There is no assurance such equity and/or debt offerings will be successful and therefore there is substantial doubt about the Company's ability to continue as a going concern within one year after the financial statements are issued. The accompanying financial statements do not include any adjustments that might result from the outcome of these uncertainties, including the events of default.

2. Lines of Business

The Company conducts business through three operating segments:Wetpaint, Choose Digital, and DDGG. These operating segments are described below.
Through Wetpaint, the Company reports original news stories and publishes information content covering top television shows, music, celebrities, entertainment news and fashion. Wetpaint publishes more than 55 new articles, videos and galleries each day. The Company generates revenues through wetpaint.com by displaying advertisements to wetpaint.com users as they view its content.

To enhance our digital publishing business, the Company recently acquired assets of Rant Inc. ("Rant'), a leading digital publisher that publishes original content in 13 different verticals, most notably in sports, entertainment, pets, cars, and food. The combined Wetpaint and Rant properties currently have approximately 13.5 million fans on their Facebook pages and generate an average of 14.4 million visits per month.
Choose Digital is a white-label digital marketplace featuring a recent and wide range of digital content, including music, movies, TV shows, eBooks and audiobooks. The content is sourced from the world's leading record companies and book publishers and an aggregator of movie and TV content. Choose Digital generates revenues when participants in Choose Digital's clients' loyalty programs redeem loyalty credits for digital content provided by Choose Digital. For example, if a participant in a loyalty program redeems credits for a song download provided by Choose Digital, the client loyalty program pays Choose Digital for the download.

The Company's wholly owned subsidiary, DDGG, made a recent investment in the DraftDay.com platform. Through DraftDay.com, users can draft a fantasy sports team within a salary cap, follow game action and reap rewards. DraftDay.com will continue to offer high-quality entertainment to consumers as well as to businesses desiring turnkey solutions to new revenue streams. See Note 6, Acquisitions, for further details on this acquisition.

3. Summary of Significant Accounting Policies

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and notes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal, recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the three months ended September 30, 2016 are not necessarily indicative of the results that may be expected for the year ending June 30, 2017.

Cash and Cash Equivalents and Restricted Cash

The Company considers all highly liquid securities purchased with original maturities of 90 days or less to be cash equivalents. Cash equivalents are stated at cost which approximates market value and primarily consists of money market funds that are readily convertible into cash. Restricted cash comprises amounts held in deposit that were

required as collateral under leases of office space.

Marketable Securities

In February 2016, the Company received 1,370,000 shares of Perk's stock, which is publicly traded on the Toronto Stock Exchange, as part of the consideration in the sale of assets described in the Perk Agreement. These securities are short-term marketable securities, and have been classified as “available-for-sale” securities. Pursuant to Accounting Standards Codification ("ASC") 320-10, “Investments - Debt and Equity Securities” the Company's marketable securities are marked to market on a quarterly basis, with unrealized gains and losses recorded in equity as Other Comprehensive Income/Loss. On September 30, 2016, the Company sold to Perk the remaining shares (1,013,068) of Perk common stock, the warrants for additional shares, and the right

to the Earn-Out Shares received from Perk on the sale of the Viggle rewards business on February 8, 2016. The Company received $1,300 from Perk as consideration therefor. The execution of the Securities Purchase Agreement and closing were simultaneous. In connection with the sale of the Perk shares, the warrants for additional shares and the right to the Earn-Out Shares, the Company recorded a loss of $2,193 in the Other Expense line item of the Consolidated Statements of Operations for the three months ended September 30, 2016.

Accounts Receivable

Accounts receivable are recorded net of an allowance for doubtful accounts. The Company's allowance for doubtful accounts is based upon historical loss patterns, the number of days that the billings are past due and an evaluation of the potential risk associated with delinquent accounts. The Company also considers any changes to the financial condition of its customers and any other external market factors that could impact the collectability of its receivables in the determination of its allowance for doubtful accounts. The Company's allowance for doubtful accounts as of September 30, 2016 and June 30, 2016 was $20.

Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash and cash equivalents and trade accounts receivable. The Company maintains cash and cash equivalents with domestic financial institutions of high credit quality. The Company performs periodic evaluations of the relative credit standing of all of such institutions.
The Company performs ongoing credit evaluations of customers to assess the probability of accounts receivable collection based on a number of factors, including past transaction experience with the customer, evaluation of their credit history, and review of the invoicing terms of the contract. The Company generally does not require collateral. The Company maintains reserves for potential credit losses on customer accounts when deemed necessary. Actual credit losses during the three months ended September 30, 2016 and September 30, 2015 were $0.

Fair Value of Financial Instruments

The carrying amounts reported in the consolidated balance sheets for cash and cash equivalents, accounts and other receivables, accounts payable and accrued liabilities approximate fair value because of the immediate or short-term maturity of these financial instruments. The carrying amount of Perk marketable securities held is marked-to-market on a quarterly basis using the closing day share price of the last business day of the quarter. The changes to fair value are recorded in Other Comprehensive Income/Loss. The carrying amount of Perk warrants held is marked-to-market on a quarterly basis using the Monte Carlo valuation model. The changes to fair value are recorded in the Consolidated Statement of Operations. The carrying amount of loans payable approximates fair value as current borrowing rates for the same, or similar issues, are the same as those that were given to the Company at the issuance of these loans.

Property and Equipment

Property and equipment (consisting primarily of computers, software, furniture and fixtures, and leasehold improvements) is recorded at historical cost and is depreciated using the straight-line method over their estimated useful lives. The useful life and depreciation method are reviewed periodically to ensure that they are consistent with the anticipated pattern of future economic benefits. Expenditures for maintenance and repairs are charged to operations as incurred, while betterments are capitalized. Gains and losses on disposals are included in the results of operations. The estimated useful lives of the Company's property and equipment is as follows: computer equipment and software: 3 years; furniture and fixtures: 4 years; and leasehold improvements: the lesser of the lease term or life of the asset.

Business Combinations and Goodwill

Business combinations are accounted for using the acquisition method of accounting. The Company allocates the purchase price of acquired companies to the identifiable assets acquired, liabilities assumed and any non-controlling interest based on their acquisition date estimated fair values. Goodwill as of the acquisition date is measured as the excess of consideration transferred and the net of the acquisition date fair values of the identifiable assets acquired and liabilities assumed. Any contingent consideration to be transferred to the acquiree is recognized at fair value at the acquisition date.

Determining the fair value of assets acquired and liabilities assumed requires the Company to make significant estimates and assumptions, including assumptions related to future cash flows, discount rates, asset lives and the probability of future cash pay-outs related to contingent consideration. The estimates of fair value are based upon assumptions believed to be reasonable by management, but are inherently uncertain and unpredictable and, therefore, actual results may differ from estimates. As a result,

during the measurement period, which may be up to one year from the acquisition date, the Company may record adjustments to the fair value of assets acquired and liabilities assumed, with the corresponding offset to goodwill. Upon the conclusion of the measurement period or final determination of the fair value of assets acquired or liabilities assumed, whichever comes first, any subsequent adjustments are recorded to the Consolidated Statements of Operations.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Company's reporting units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.Where goodwill has been allocated to a reporting unit and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative fair values of the disposed operation and the portion of the reporting units retained.

As required by ASC 350, "Goodwill and Other Intangible Assets", the Company tests goodwill for impairment during the fourth quarter of its fiscal year. Goodwill is not amortized, but instead tested for impairment at the reporting unit level at least annually and more frequently upon occurrence of certain events. As noted above, the Company has three reporting units. The annual goodwill impairment test is a two step process. First, the Company determines if the carrying value of its reporting unit exceeds fair value, which would indicate that goodwill may be impaired. If the Company then determines that goodwill may be impaired, it compares the implied fair value of the goodwill to its carry amount to determine if there is an impairment loss.

Historically, the Company had one reporting unit. However, in connection with the sale of a significant portion of the Company's assets (see Note 1, Basis of Presentation and Consolidation), the remaining operations were divided into three reporting units (see Note 4, Segments). The Company engaged a third-party valuation firm to test the Choose Digital and Wetpaint reporting units for goodwill impairment. The DDGG reporting unit was not tested for impairment at December 31, 2015 as the acquisition of this entity occurred in September 2015. The Company determined that the fair value of both of the Wetpaint and Choose Digital reporting units were significantly below their respective carrying values, indicating that goodwill related to these reporting units may be impaired. The Company determined the fair value of all long-lived assets other than goodwill related to each reporting unit and calculated the residual goodwill value for each. Upon comparing the residual goodwill values to the respective carrying values, the Company determined that there was an impairment loss on both the Choose Digital and Wetpaint reporting units.

The Company recorded an impairment loss of $4,335 related to the Choose Digital reporting unit and $10,708 related to the Wetpaint reporting unit during the three months ended December 31, 2015. Upon the finalization of the December 31, 2015 Choose Digital and Wetpaint goodwill impairment analysis, the consolidated goodwill ending balances as of March 31, 2016 were adjusted by $3,350 at June 30, 2016. The Company also recorded an additional goodwill impairment loss of $1,672 in the Selling, general and administrative expense line and reduced the gain on the sale of the Viggle Business by $1,672 in the Consolidated Statement of Operations during the nine months ended March 31, 2016 as a result of the finalization of the December 2015 Choose Digital and Wetpaint impairment analysis. There were no impairments recorded during the three months ended September 30, 2016.

At June 30, 2016, the Company determined that the fair value of the DDGG reporting unit was significantly below its carrying value, indicating that goodwill may be impaired. The Company determined the fair value of all long-lived assets other than goodwill and calculated the residual goodwill for the reporting unit. The residual goodwill was higher than the carrying value of goodwill related to the DDGG reporting unit, therefore the Company did not record an impairment loss for DDGG goodwill during the year ended June 30, 2016.

Other Long-Lived Assets

The Company accounts for the impairment of long-lived assets other than goodwill in accordance with ASC 360, “Property, Plant, and Equipment” ("ASC 360"), which addresses financial accounting and reporting for the impairment or disposal of long-lived assets. ASC 360 requires impairment losses to be recorded on long-lived assets used in operations when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets (fair value) are less than the assets' carrying amounts. In that event, a loss is recognized based on the amount by which the carrying amount exceeds the fair value of the long-lived assets. Loss on long-lived assets to be disposed of is determined in a similar manner, except that fair values are reduced for the cost of disposal.

At June 30, 2015, the Company determined that certain intangible assets related to the acquisition of Choose Digital (see Note 6, Acquisitions for further detail regarding the Choose Digital acquisition) were impaired. Due to a shift in the Company's business operations and utilization of its resources, during the fourth quarter of fiscal 2015 the Company determined that intangible assets related to customer relationships and trade name no longer had value. Therefore, such assets were written off as of June 30, 2015. The total amount of the write-off was $2,086.

At December 31, 2015, as described above, the Company determined that the fair value of the Choose Digital and Wetpaint reporting units tested was significantly below the respective carrying values and assessed the fair values of the long-lived assets other than goodwill for each reporting unit. Upon comparing the fair values of the long-lived assets to their respective carrying values, the Company recorded a loss of $1,331 on intangible assets related to Choose Digital's software and licenses, and a loss of $11,418 on intangible assets related to Wetpaint's technology, trademark, customer relationships and non-competition agreements, during the three months ended December 31, 2015. No impairments were recorded during the three months ended September 30, 2016.

At June 30, 2016, the Company determined that certain intangible assets related to the acquisition of Draftday.com were impaired. At June 30, 2016, DDGG's Management Services Agreement By and Between DraftDay Gaming Group, Inc. and Sportech Racing, LLC ("Sportech MSA") terminated, which led to a significantly lower revenues forecast for the reporting unit. As a result, the Company determined that the intangible assets related to internally developed software, trade name and non-compete agreements were impaired. The Company recorded a loss of $749 on intangible assets related to DDGG during the year ended June 30, 2016.

No impairments were recorded during the three months ended September 30, 2016.

Capitalized Software

The Company records amortization of acquired software on a straight-line basis over the estimated useful life of the software.

In addition, the Company records and capitalizes internally generated computer software and, appropriately, certain internal costs have been capitalized in the amount of $1,498 as of September 30, 2016 and $1,498 as of June 30, 2016, in accordance with ASC 350-40 "Internal-use Software". At the time software is placed into service, the Company records amortization on a straight-line basis over the estimated useful life of the software. The change in capitalized software is due to impairment of long-term assets related to the Choose Digital and Wetpaint businesses described earlier, as well as the abandonment of certain technology as of January 1, 2016, and internal development costs.

DDGG Player Deposits

The Company maintains a separate bank account to hold player deposits in accordance with current industry regulations. The player deposits bank account represents money reserved for player withdrawals and winnings. Accordingly, the Company records an offsetting liability at the time of receipt of player deposits.

Deferred Rent

The Company leases its corporate office, and as part of the lease agreement the landlord provided a rent abatement for the first 10 months of the lease. In 2014, the Company entered into two lease agreements for its satellite offices which provided for tenant improvement work sponsored by the landlords. The abatement and landlord sponsored improvements have been accounted for as a reduction of rental expense over the life of the lease. The Company accounts for rental expense on a straight-line basis over the entire term of the lease. Deferred rent is equal to the cumulative timing difference between actual rent payments and recognized rental expense. The satellite office leases were terminated in Fiscal 2016. The Company wrote-off residual leasehold improvement and deferred rent balances related to landlord sponsored tenant improvement work, and recorded a write-off of $83 in the Consolidated Statements of Operations for the year ended June 30, 2016.

Revenue Recognition

The Company recognizes revenue when: (1) persuasive evidence exists of an arrangement with the customer reflecting the terms and conditions under which products or services will be provided; (2) delivery has occurred or services have been provided; (3) the fee is fixed or determinable; and (4) collection is reasonably assured. For all revenue transactions, the Company considers a signed agreement, a binding insertion order or other similar documentation to be persuasive evidence of an arrangement.

Advertising Revenue: the Company generates advertising revenue primarily from third-party advertising via real-time bidding, which is typically sold on a per impression basis.

Deferred Revenue: deferred revenue consists principally of prepaid but unrecognized revenue. Deferred revenue is recognized as revenue when the services are provided and all other revenue recognition criteria have been met.

Barter Revenue: barter transactions represent the exchange of advertising or programming for advertising, merchandise or services. Barter transactions which exchange advertising for advertising are accounted for in accordance with Emerging Issues Task Force Issue No. 99-17 "Accounting for Advertising Barter Transactions" (ASC Topic 605-20-25). Such transactions are recorded at the fair value of the advertising provided based on the Company's own historical practice of receiving cash for similar advertising from buyers unrelated to the counter party in the barter transactions. Barter transactions which exchange advertising or programming for merchandise or services are recorded at the monetary value of the revenue expected to be realized from the ultimate disposition of merchandise or services.

The Company recognized barter revenue and barter expense in the amount of $0 and $2,609 for the three months ended September 30, 2016 and September 30, 2015, respectively.

Stock-Based Compensation

The Company accounts for stock-based compensation in accordance with ASC 718, "Compensation - Stock Compensation" ("ASC 718"). Under the fair value recognition provisions of ASC 718, stock-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense ratably over the requisite service period. The Company uses the Black-Scholes option pricing model to determine the fair value of stock options and warrants issued. Stock-based awards issued to date are comprised of both restricted stock awards (RSUs) and employee stock options.

Marketing

Marketing costs are expensed as incurred. Marketing expense for the Company for the three months ended September 30, 2016 and September 30, 2015 was $32 and $3,321, respectively.

Income Taxes

The Company uses the liability method of accounting for income taxes as set forth in ASC 740, "Income Taxes" ("ASC 740"). Under the liability method, deferred taxes are determined based on the temporary differences between the financial statement and tax basis of assets and liabilities using tax rates expected to be in effect during the years in which the basis differences reverse. A valuation allowance is recorded when it is unlikely that the deferred tax assets will not be realized. The Company assesses its income tax positions and record tax benefits for all years subject to examination based upon the Company's evaluation of the facts, circumstances and information available at the reporting date. In accordance with ASC 740-10, for those tax positions where there is a greater than 50% likelihood that a tax benefit will be sustained, the Company's policy will be to record the largest amount of tax benefit that is more likely than not to be realized upon ultimate settlement with a taxing authority that has full knowledge of all relevant information. For those income tax positions where there is less than 50% likelihood that a tax benefit will be sustained, no tax benefit will be recognized in the financial statements.

Comprehensive Loss

In accordance with ASC 220, "Comprehensive Income", the Company reports by major components and as a single total, the change in its net assets during the period from non-owner sources. Comprehensive income consists of net income (loss), accumulated other comprehensive income (loss), which includes certain changes in equity that are excluded from net income (loss). The Company’s comprehensive loss for all periods presented is related to the effect of unrealized gain on available for sale marketable securities.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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 expenses during the reporting period. These estimates include, among others, fair value of financial assets and liabilities, net realizable values on long-lived assets, certain accrued expense accounts, and estimates related to stock-based compensation. Actual results could differ from those estimates.

During the three months ended September 30, 2016, there have been no significant changes related to the Company's critical accounting policies and estimates as disclosed in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" set forth in the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2016.

Recently Issued Accounting Pronouncements

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In October 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update 2016-16, "Accounting for Income Taxes: Intra-Entity Asset Transfers of Assets Other than Inventory" (ASU 2016-16"). This update eliminates the exception for all intra-entity sales of assets other than inventory. As a result, a reporting entity would recognize the tax expense from the sale of the asset in the seller's tax jurisdiction when the transfer occurs, even though the pre-tax effects of that transaction are eliminated in consolidation. Any deferred tax asset that arises in the buyer's jurisdiction would also be recognized at the time of the transfer. ASU 2016-16 is effective for financial statements issued for annual periods beginning after December 15, 2017. The Company does not expect the standard to have a material impact on its consolidated financial statements.

In May 2016, FASB issued Accounting Standards Update 2016-12, "Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients" ("ASU 2016-12"). The amendments in this update affect the guidance in Accounting Standards Update 2014-09, Revenue from Contracts with Customers (Topic 606) ("ASU 2014-09"), which is not yet effective. This update focuses on improving several aspects of ASU 2014-09, such as assessing the collectability criterion in paragraph 606-10-25-1(e) and accounting for contracts that do not meet the criteria for step 1; presentation of sales taxes and other similar taxes collected from customers; noncash consideration; contract modifications at transition; and completed contracts at transition. ASU 2016-12 is effective for financial statements issued for annual periods beginning after December 15, 2017. The Company does not expect the standard to have a material impact on its consolidated financial statements.

In April 2016, the FASB issued Accounting Standards Update 2016-10, "Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing" ("ASU 2016-10"). The amendments in this update affect the guidance in ASU 2014-09, which is not yet effective. This update focuses on clarifying the following two aspects of ASU 2014-09: identifying performance obligations and the licensing implementation guidance, while retaining the related principles for those areas. ASU 2016-10 is effective for financial statements issued for annual periods beginning after December 15, 2017. The Company does not expect the standard to have a material impact on its consolidated financial statements.

In March 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2016-09,
Compensation —Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting" ("ASU
2016-09"). This update is intended to improve the accounting for employee share-based payments and affects all organizations
that issue share-based payment awards to their employees. Several aspects of the accounting for share-based payment award
transactions are simplified, including:(a)income tax consequences;(b)classification of awards as either equity or liabilities; and(c) classification on the statement of cash flows. ASU 2016-09 is effective for financial statements issued for annual periods beginning after December 15, 2016. The Company is currently in the process of evaluating the impact of adoption of ASU 2016-09 on its financial statements.

In February 2016, FASB issued Accounting Standards Update No. 2016-02, "Leases" ("ASU 2016-02"). ASU 2016-02
requires lessees to recognize the following for all leases (with the exception of short-term leases) at the commencement date: a
lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and a
right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease

term. Under the new guidance, lessor accounting is largely unchanged. Certain targeted improvements were made to align, where necessary, lessor accounting with the lessee accounting model and Topic 606, Revenue from Contracts with Customers. The new lease guidance also simplified the accounting for sale and leaseback transactions primarily because lessees must recognize lease assets and lease liabilities. Lessees will no longer be provided with a source of off-balance sheet financing. Lessees (for capital and operating leases) and lessors (for sales-type, direct financing, and operating leases) must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The modified retrospective approach would not require any transition accounting for leases that expired before the earliest comparative period presented. Lessees and lessors may not apply a full retrospective transition approach. ASU 2016-02 is effective for financial statements issued for annual periods beginning after December 15, 2018. The Company is currently in the process of evaluating the impact of adoption of ASU 2016-02 on its financial statements.

In January 2016, FASB issued Accounting Standards Update No. 2016-01, "Financial Instruments- Overall: Recognition
and Measurement of Financial Assets and Financial Liabilities" ("ASU 2016-01"). ASU 2016-01 requires all equity investments to be measured at fair value with changes in the fair value recognized through net income (other than those accounted for under equity method of accounting or those that result in consolidation of the investee). Additionally, it requires an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments. Lastly, the standard eliminates the requirement to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet. ASU 2016-01 is effective for financial statements issued for annual periods beginning after December 15,

2017, and interim periods within those annual periods. The Company does not expect the standard to have a material impact on its consolidated financial statements.

In November 2015, FASB issued Accounting Standards Update No. 2015-17, “Income taxes: Balance Sheet Classification
of Deferred Taxes Business” (“ASU 2015-17”). Topic 740, Income Taxes, requires an entity to separate deferred income tax
liabilities and assets into current and noncurrent amounts in a classified statement of financial position. Deferred tax liabilities
and assets are classified as current or noncurrent based on the classification of the related asset or liability for financial reporting. Deferred tax liabilities and assets that are not related to an asset or liability for financial reporting are classified according to the expected reversal date of the temporary difference. To simplify the presentation of deferred income taxes, ASU 2015-17 requires that deferred income tax liabilities and assets be classified as noncurrent in a classified statement of financial position. ASU 2015-17 is effective for for financial statements issued for annual periods beginning after December 15, 2016, and interim periods within those annual periods. The Company does not expect the standard to have a material impact on its consolidated financial statements.

In September 2015, the FASB issued Accounting Standard Update No. 2015-16, Business Combinations - Simplifying the Accounting for Measurement-Period Adjustments ("ASU 2015-16"). This standard requires that an acquirer retrospectively adjust provisional amounts recognized in a business combination, during the measurement period. To simplify the accounting for adjustments made to provisional amounts, the amendments in the ASU 2015-16 require that the acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amount is determined. The acquirer is required to also record, in the same period’s financial statements, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date. In addition an entity is required to present separately on the face of the income statement or disclose in the notes to the financial statements the portion of the amount recorded in current-period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. ASU 2015-16 is effective for fiscal years beginning after December 15, 2016, and interim periods within fiscal years beginning after December 15, 2017 (July 1, 2017 for the Company). The Company does not believe that the adoption of ASU 2015-16 will have a material impact on its consolidated financial statements.

4. Segments

Historically, the Company had one operating segment. However, in connection with the sale of the Viggle rewards business (discontinued operations) to Perk in February 2016, which represents a significant portion of the Company's assets and revenues, the Company's remaining operations were divided into three operating segments. These segments offer different products and services and are currently presented separately in internal management reports, and managed separately.

- Wetpaint: a media channel reporting original news stories and publishing information content covering top television shows, music, celebrities, entertainment news and fashion.
- Choose Digital: a business-to-business platform for delivering digital content.
- DDGG: a business-to-business operator of daily fantasy sports.

The accounting policies followed by the segments are described in Note 3, Summary of Significant Accounting Policies. The operating segments of the Company include the assets, liabilities, revenues and expenses that management has determined are specifically or primarily identifiable to each segment, as well as direct and indirect

costs that are attributable to the operations of each segment. Direct costs are the operational costs that are administered by the Company following the shared services concept. Indirect costs are the costs of support functions that are provided on a centralized or geographic basis by the Company, which include, but are not limited to, finance, human resources, benefits administration, procurement support, information technology, legal, corporate strategy, corporate governance and other professional services and general commercial support functions.

Central support costs have been allocated to each operating segment based on a specific identification basis or, when specific identification is not practicable, a proportional cost allocation method (primarily based on net sales or direct payroll costs), depending on the nature of the services received. Management considers that such allocations have been made on a reasonable basis, but may not necessarily be indicative of the costs that would have been incurred if the operating segments had been operated on a stand-alone basis for the periods presented.

Information regarding the results of each reportable segment is included below. Performance is measured based on unit profit after tax, as included in the internal management reports that are reviewed by the chief operating decision maker, who is the Company's Chief Executive Officer. Business unit profit is used to measure performance as management believes that such information is the most relevant in evaluating the success of each business and determining the going forward strategy for the Company as a whole.

Information about reportable segments:

	Three Months Ended September 30,							
	Wetpaint		Choose Digital		DDGG		Total	
	2016	2015	2016	2015	2016	2015	2016	2015
External revenues	371	516	58	198	105	83	534	797
Inter-segment revenues (1)	—	—			—	—	—	—
Net loss, net of income taxes (2)	(2,077)	(1,857)	(401)	(484)	(752)	26	(3,230)	(2,315)

Notes:
(1) The Choose Digital business provides digital content to the Viggle business. These inter-segment revenues are presented at Choose Digital's cost in this schedule and in the consolidated statements of operations.
(2) The net loss figures presented exclude certain corporate expenses detailed in the reconciliation to the consolidated net loss below.
(3) Assets and liabilities are not presented as they are reviewed at the consolidated level by management and not accounted for by segment.

Reconciliation of revenues attributable to reportable segments to consolidated revenues from continuing operations:

	Three Months Ended September 30,	
	2016	2015
Revenues attributable to reportable segments	$534	$797
Licensing revenues related to SFX licensing agreement	125	125
Other revenues	—	—
Revenues per Consolidated Statements of Operations	$659	$922

Reconciliation of net loss for reportable segments, net of income taxes to consolidated net loss from continuing operations, net of income taxes:

	Three Months Ended September 30,	
	2016	2015
Net loss for reportable segments, net of income taxes	(3,230)	(2,315)
Other net gain (loss)	(2,478)	—
	(5,708)	(2,315)
Stock compensation related to corporate financing activities (1)	—	(4,250)
Corporate expenses allocated to discontinued operations (2)	(158)	(211)
Interest expense (3)	(1,651)	(856)
Consolidated net loss from continuing operations, net of income taxes	(7,517)	(7,632)

Notes:
(1) Stock compensation expense related to RSUs, options and warrants issues in connection with financing activities. Expenses related to financing activities are considered to be corporate expenses and are not allocated to reportable segments.
(2) Certain corporate expenses were allocated to the Viggle segment, however such expenses are not classified as discontinued operations because they are fixed and are not affected by the sales transaction.
(3) Interest expense related to corporate debt instruments is not allocated to reportable segments.

Total assets for reportable segments:

	September 30, 2016			
	Wetpaint	Choose Digital	DDGG	Total
Total assets for reportable segments	$21,740	$5,273	$4,021	$31,034

	June 30, 2016			
	Wetpaint	Choose Digital	DDGG	Total
Total assets for reportable segments	$8,495	$5,416	$3,740	$17,651

Reconciliation of assets attributable to reportable segments to consolidated assets of continuing operations:

	September 30, 2016	June 30, 2016
Total assets for reportable segments	$ 31,034	$17,651
Other assets (1)	2,016	5,349
Total consolidated assets, net of current and non-current assets of discontinued operations	$ 33,050	$23,000

Notes:
(1) Corporate assets that are not specifically related to any of the reporting units.

The Company continues to support the cash needs and operations of DDGG. As of September 30, 2016 the Company has transferred $736 to the DDGG subsidiary. A portion of these transfers, or $500, was funded as part of the purchase price commitment. The remaining transfers are part of the subscription agreement entered into with DDGG on May 12, 2016 (see Note 16, Subsequent Events).

On July 12, 2015, to enhance our digital publishing business, we recently acquired assets of Rant. Rant is a leading digital publisher that publishes original content in 13 different verticals, most notably in sports, entertainment, pets, cars, and food. Rant results of operations are included in the Company's digital publishing segment, Wetpaint.

5. Discontinued Operations

On February 8, 2016, the Company completed the sale of assets related to the Company's rewards business, including the Viggle App, in accordance with the Perk Agreement entered into on December 13, 2015. Management entered into this binding sales agreement following a strategic decision to divest the operations related to the Viggle App and place greater focus on its remaining businesses. The Company has classified the Viggle assets, liabilities and operations as discontinued operations in the accompanying Consolidated Financial Statements for all periods presented. In accordance with ASC No. 205, Presentation of Financial Statements, the inter-segment revenues and expenses related to services provided by Choose Digital to the Viggle rewards business (discontinued operations) are presented at cost in the Consolidated Statements of Operations.

On December 13, 2015, the Parent entered into the Perk Agreement. Perk's shares are currently traded on the Toronto Stock Exchange. On February 8, 2016, pursuant to the Perk Agreement, the Company completed the sale of the assets related to the Company's rewards business, including Viggle's application, to Perk. The total consideration received net of transaction fees was approximately $5,110, and consisted of the following:

- 1,370,000 shares of Perk common stock, a portion of which was placed in escrow to satisfy any potential indemnification claims;

- 2,000,000 shares of Perk common stock if Perk's total revenues exceed USD $130,000 for the year ended December 31, 2016 or December 31, 2017;

- a warrant entitling the Company to purchase 1,000,000 shares of Perk common stock at a strike price of CDN $6.25 per share in the event the volume weighted average price ("VWAP") of shares of Perk common stock is greater than or equal to CDN $12.50 for 20 consecutive trading days in the two year period following the closing of the transaction;

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- a warrant entitling the Company to purchase 1,000,000 shares of Perk common stock at a strike price of CDN $6.25 per share in the event that the VWAP of Perk common stock is greater than or equal to CDN $18.75 for 20 consecutive trading days in the two year period following the closing of the transaction, and

- Perk assumed certain liabilities of the Company, consisting of the Viggle points liability.

At the time the Company entered into the Perk Agreement, Perk provided the Company with a $1,000 secured line of credit, which the Company fully drew down. The Company had the option of repaying amounts outstanding under that line of credit by reducing the number of Initial Perk Shares by130,000. The Company exercised this option and received 1,370,000 shares of Perk common stock at closing, and the amounts outstanding under the Line of Credit were deemed paid in full.

At the closing, 37.5% (562,600) of the Initial Perk Shares were issued and delivered to an escrow agent to be used exclusively for the purpose of securing the Company's indemnification obligations under the Perk Agreement.

Additionally, after the closing, the Company delivered 357,032 of the Initial Perk Shares to Gracenote, Inc. and Tribune Media Services, Inc., former providers of technology services of the Company, as per the Settlement and Transfer Agreement dated February 5, 2016, to satisfy an obligation. The Company recognized a gain of $593 in the Consolidated Statements of Operations for the year ended June 30, 2016.

On September 30, 2016, the Company sold to Perk the remaining shares (1,013,068) of Perk common stock, the warrants for additional shares, and the right to the Earn-Out Shares received from Perk on the sale of the Viggle rewards business on February 8, 2016. The Company received $1,300 from Perk as consideration therefor. The execution of the Securities Purchase Agreement and closing were simultaneous. The escrowed shares were released as part of this transaction.

The Company recognized a gain of $1,060 on this transaction, net of transaction fees associated with the sale of the Viggle rewards business.

Results of operations classified as discontinued operations:

	Three Months Ended September 30,	
	2016	2015
Revenues	$—	$4,130
Cost of watchpoints and engagement points	—	(2,022)
Selling, general and administrative expenses	(36)	(7,866)
Loss before income taxes	(36)	(5,758)
Income taxes (see Note 13, Income Taxes)	—	(22)
Net loss	$(36)	$(5,780)

Current assets and non-current assets used in discontinued operations:

	September 30, 2016	June 30, 2016
Current assets:		
Accounts receivable, net	$ 20	$ 39
Prepaid expenses	—	—
Current assets of discontinued operations	$ 20	$ 39

Non-current assets:		
Property and equipment, net	$ —	$ —
Intangible assets, net	—	—
Goodwill	—	—
Other assets	—	—
Non-current assets of discontinued operations	$ —	$ —

Current liabilities and non-current liabilities used in discontinued operations:

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	September 30, 2016	June 30, 2016
Current liabilities:		
Accounts payable and accrued expenses	$ 2,609	$2,634
Reward points payable		—
Current portion of loan payable	221	217
Current liabilities of discontinued operations	$ 2,830	$2,851
Non-current liabilities:		
Other long-term liabilities	$ —	$—
Non-current liabilities of discontinued operations	$ —	$—

6. Acquisitions

Acquisition of Choose Digital

On June 24, 2014, the Company acquired Choose Digital, a Miami, Florida based, digital marketplace platform that allows companies to incorporate digital content into existing rewards and loyalty programs in support of marketing and sales initiatives.

In connection with the acquisition, the Company was required to make a contingent payment, which was due within five business days after June 24, 2015, of $4,792. Such amount was accrued in the accompanying Consolidated Balance Sheets as of June 30, 2015. On June 24, 2015, the Company determined that the maximum amount of contingent consideration of $4,792 should be recorded. As such, the Company adjusted the original estimate of contingent consideration of $2,570 to $4,792. The increase of $2,222 was recorded as an expense and included in Selling, general and administrative expenses in the accompanying Consolidated Statements of Operations for the year ended June 30, 2015. On July 31, 2015, the Company entered into a Forbearance Agreement with AmossyKlein Family Holdings, LLP ("AmossyKlein"), as representative of the former shareholders of Choose Digital Inc. (the “Stockholders”). The Forbearance Agreement provides that the Company will make monthly installment payments to the Stockholders, beginning on July 31, 2015 and ending on January 29, 2016. Specifically, the Company agreed to pay $668 on July 31, 2015; $532 on August 31, 2015; $528 on September 30, 2015; $524 on October 31, 2015; $521 on November 30, 2015; $517 on December 31, 2015; and $1,754 on January 29, 2016. The scheduled payments include $170 of interest and $82 of legal fee charges. The Company agreed to deliver an affidavit of confession of judgment to be held in escrow by AmossyKlein’s counsel in the event the Company does not make such installment payments. The Company made the installment payments through December 2015, but failed to make the payment due on January 29, 2016.

On May 12, 2016. the Company and AmossyKlein entered into an amendment to the Forbearance Agreement to provide for the payment of the remaining $1,754. The Forbearance Agreement now provides that the Company will make a payment of approximately $300 by May 18, 2016, and thereafter, the Company will make monthly payments of $100, plus interest at a rate of 9% per annum, until the remaining amount is paid in full. In addition, the Company agreed to pledge 100,000 shares of common stock it holds in Perk.com, Inc. as collateral for these obligations. Finally, the Company agreed if it consummates a sale of a substantial part of its assets or a public equity offering, the Company will first apply the proceeds to remaining amounts due to AmossyKlein, except for payments to advisors or expenses necessary to close such transactions. The Company also delivered an amended confession of judgment that it had previously delivered to AmossyKlein, which will be held in escrow by AmossyKlein's counsel in the event the Company does not make installment payments as set forth in the amended Forbearance Agreement. During the three

months ended September 30, 2016, the Company paid approximately$400 under the Forbearance Agreement.

In addition, at June 30, 2015, due to a shift in business operations and utilization of resources during the fourth quarter of 2015, the Company determined that certain intangible assets related to the acquisition of Choose Digital no longer had value (see Note 3, Summary of Significant Accounting Policies). At December 31, 2015, the Company further determined that certain intangible assets and goodwill related to the acquisition of Choose digital were impaired (see Note 3, Summary of Significant Accounting Policies).

Acquisition of DraftDay.com

On September 8, 2015, the Company and its newly created subsidiary DDGG entered into an Asset Purchase Agreement (the “Asset Purchase Agreement”) with MGT Capital Investments, Inc. (“MGT Capital”) and MGT Sports, Inc. (“MGT Sports”), pursuant to which the Company acquired all of the assets of the DraftDay.com business (the “DraftDay Business”) from MGT

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Capital and MGT Sports. In exchange for the acquisition of the DraftDay Business, the Company paid MGT Sports the following: (a) 63,647 shares of the Company's Common Stock, par value $0.001 per share ("Common Stock"), (b) a promissory note in the amount of $234 due September 29, 2015, (c) a promissory note in the amount of $1,875 due March 8, 2016 (the "MGT Note"), and (d) 2,550 shares of common stock of DDGG. In addition, in exchange for providing certain transitional services, DDGG will issue to MGT Sports a warrant to purchase 1,500 shares of DDGG common stock at an exercise price of $400 per share.

In addition, in exchange for the release of various liens and encumbrances, the Company also agreed to issue to third parties: (a) 4,232 shares of its Common Stock, (b) a promissory note in the amount of $16 due September 29, 2015 and (c) a promissory note in the amount of $125 due March 8, 2016, and DDGG issued: (i) 150 shares of its common stock and (ii) a warrant to purchase 150 shares of DDGG common stock at $400 per share.

Accordingly, the Company issued a total of 67,879 shares of Common Stock in connection with the acquisition of the DraftDay Business.

The Company contributed the assets of the DraftDay Business to DDGG and received 11,250 shares of DDGG common stock.

The Asset Purchase Agreement contains customary representations, warranties and covenants of MGT Capital and MGT Sports. In addition, on September 8, 2015, DDGG entered into an agreement with Sportech Racing, LLC ("Sportech") pursuant to which Sportech agreed to provide certain management services to DDGG in exchange for 9,000 shares of DDGG common stock.
As a result of the transactions described above, the Company owns a total of 11,250 shares of DDGG common stock, Sportech Inc., an affiliate of Sportech, owns 9,000 shares of DDGG common stock, MGT Sports owns 2,550 shares of DDGG common stock and an additional third party owns 150 shares of DDGG common stock. In addition, MGT Sports holds a warrant to purchase 1500 shares of DDGG common stock at an exercise price of $400 and an additional third party holds a warrant to purchase 350 shares of DDGG common stock at $400 per share. On September 8, 2015, the various stockholders of DDGG entered into a Stockholders Agreement (the "Stockholders Agreement"). The Stockholders Agreement provides that all stockholders will vote their shares of DDGG common stock for a Board comprised of three members, two of which will be designated by the Company and one of which will be designated by Sportech. Mr. Sillerman will serve as the Chairman of DDGG. The Stockholders Agreement also provides customary rights of first refusal for the various stockholders, as well as customary co-sale, drag along and preemptive rights.

As a result of the transactions described herein, the Company issued promissory notes in the aggregate principal amount of $250 due and paid on September 29, 2015 and in the aggregate principal amount of $2,000 due March 8, 2016. All such notes bear interest at a rate of 5% per annum. The Company was not able to make the $2,000 in payments at the due date and on March 24, 2016 converted $825 of the promissory notes to common stock and $110 of the promissory notes to a Series D Preferred Stock (see Note 11, Stockholders' (Deficit) Equity). On April 13, 2016, MGT converted all 110 shares of the Company's Series D Preferred Stock into shares of common stock of the Company. Accordingly, the Company issued 18,332 shares of common stock to MGT. Thereafter, there are no shares of the Company's Series D Preferred Stock outstanding. On June 14, 2016, the Company entered into a second exchange agreement with MGT (the "Second MGT Exchange Agreement") relating to the $940 remaining due under the MGT Note. Under the Second MGT Exchange Agreement, the MGT Note shall be exchanged in full for (a) $11 in cash representing accrued interest and (b) 132,092 shares of our common stock, subject to certain adjustments. Issuance of the shares is conditioned upon approval of the Company's shareholders and approval of its listing of additional shares application with NASDAQ. On October 10, 2016, the Company satisfied the MGT Note through the issuance of 136,304 shares of its common stock and payment of interest of $16.

On December 28, 2015, DDGG's Board of Directors effectuated a 1-for-1,000 reverse stock split (the “1-for-1,000 Reverse Split”). Under the terms of the 1-for-1,000 Reverse Split, each share of DDGG's common stock, issued and outstanding as of such effective date, was automatically reclassified and changed into one-thousandth of one share of common stock, without any action by the stockholders. Fractional shares were cashed out.

On May 12, 2016, the Company entered into a subscription agreement with DDGG pursuant to which the Company agreed to purchase up to 550 shares of Series A Preferred Stock of DDGG for $1 per share. DDGG also entered into a subscription agreement with Sportech pursuant to which Sportech agreed to purchase up to 450 shares of Series A Preferred Stock of DDGG for $1 per share. In accordance with this agreement, the Company transferred a total of $550 to the DDGG subsidiary since the date of acquisition and through November 20, 2016.

Kuusamo Warrants

In exchange for releasing certain liens and encumbrances with respect to DDGG, the Company issued promissory notes to Kuusamo Capital Ltd. ("Kuusamo Promissory Notes") in the principal amount of $16 due and paid on September 29, 2015 and

in the aggregate principal amount of $125 due March 8, 2016. All such notes bear interest at a rate of 5% per annum. The Company was not able to make the $125 payment at the due date. On April 25, 2016, the Company also entered into an exchange agreement with Kuusamo Capital Ltd. ("Kuusamo"), pursuant to which the Company issued 10,394 shares of its common stock to Kuusamo in exchange for a reduction of $71 in principal amount of a promissory note the Company owed to Kuusamo.

The outstanding balance of the Kuusamo Promissory Notes was $55 and $54 at September 30, 2016 and June 30, 2016, respectively. The Company recorded $5 in interest expense for the year ended June 30, 2016.

Sportech MSA Termination

On April 12, 2016, DDGG entered into an amendment to the transitional management services agreement pursuant to which the DDGG's Management Services Agreement By and Between DraftDay Gaming Group, Inc. and Sportech Racing, LLC ("Sportech MSA") terminated effective June 30, 2016. Sportech paid a $75 termination fee, to provide transitional services for 45 days, and has agreed to revert 4,200 shares of DDGG stock back to the Company on August 15, 2016. The Company had previously recorded the value of the services provided by Sportech under the Sportech MSA to prepaid assets, to be recognized as a professional services expense in the Consolidated Statements of Operations over the term of the agreement. Due to the termination of the agreement, the Company reduced prepaid assets and non-controlling interest accounts for the value of the returned 4,200 shares of DDGG stock, and expensed the remaining value of the Sportech services, except for 45 days of transitional services. The value of returned DDGG shares was determined by a third-party valuation firm as of June 30, 2016 using Level 3 inputs. The termination of the Sportech MSA will require DDGG to begin performing certain functions on its own.

DDGG Intangibles and Goodwill Impairment

As noted above, at June 30, 2016, the Sportech MSA terminated, which led to a significantly lower revenues forecast for the reporting unit. As a result, the Company determined that intangible assets related to internally developed software, trade name and non-compete agreements were impaired as of June 30, 2016. The Company recorded a loss of $749 on intangible assets related to DDGG during the year ended June 30, 2016. There was no impairment of goodwill (see Note 3, Summary of Significant Accounting Policies).

This acquisition has been accounted for under the acquisition method of accounting in accordance with ASC 805, "Business Combinations". Under the acquisition method, the consideration transferred is measured at the acquisition closing date. The assets of the DraftDay Business have been measured based on various preliminary estimates using assumptions that the Company's management believes are reasonable utilizing information currently available. Use of different estimates and judgments could yield different results. The Company has performed a preliminary allocation of the purchase price to the underlying net assets acquired and liabilities assumed based on their estimated fair values as of the acquisition date, with any excess of the purchase price allocated to goodwill. The Company has not completed the analysis of certain acquired assets and assumed liabilities, including, but not limited to, other identifiable intangible assets such as customer lists and technology. However, the Company is continuing its review of these items during the measurement period, and further changes to the preliminary allocation will be recognized as the valuations are finalized. Such valuations are being conducted using Level 3 inputs as described in ASC 820, "Fair Value Measurements and Disclosures", that are generally unobservable and typically reflect management's estimates of assumptions that market participants would use in pricing the asset or liability.

A summary of the fair value of consideration transferred for this acquisition and the fair value of the assets and liabilities at the date of acquisition is as follows (amounts in thousands):

Consideration transferred:	
Shares of the Company's common stock on closing market price at issuance	$1,760
Notes issued to sellers	2,250
Total consideration transferred	$4,010
Purchase allocation:	
Goodwill	$1,591
Intangible assets	3,012
Other Assets	799
Total liabilities	(1,392)
	$4,010

The operations of this acquisition are not material, and thus, pro forma disclosures are not presented.

Rant

On July 12, 2016, the Company, and RACX Inc., a Delaware corporation and wholly-owned subsidiary of the Company ("RACX"), completed an acquisition pursuant to an Asset Purchase Agreement (the "Asset Purchase Agreement") with Rant, Inc., a Delaware corporation, pursuant to which RACX has acquired the assets of Rant (the "Asset Purchase") used in the operation of Rant's Rant.com independent media network and related businesses, including but not limited to the www.rantsports.com, www.rantlifestyle.com, www.rantchic.com, www.rantgirls.com, www.rant-inc.com, www.rantstore.com, www.rantcities.com, www.rantcars.com, www.rantfinance.com, www.ranthollywood.com, www.rantfood.com, www.rantgamer.com, www.rantgizmo.com, www.rantpets.com, www.rantplaces.com, www.rantpolitical.com, www.rantmn.com, www.rantbeats.com, www.rantgirls.com, www.rantstore.com, www.rantcities.com, www.rantranet.com, and www.rantmovies.com websites (the "Rant Assets").

In consideration for the purchase of the Rant Assets, the Company delivered a Secured Convertible Promissory Note (the "Secured Convertible Note") to Rant with a fair value determined to be $3,500 and delivered the stock consideration of $7,600 described below.

The $3,000 Secured Convertible Note matures on July 8, 2017 barring any events of default or a change of control of the Company. The Secured Convertible Note bears interest at 12% per annum, payable at maturity. At the election of Rant, the Secured Convertible Note is convertible into shares of the Company's common stock at a price equal to the lower of (i) $5.20 per share, or (ii) such lower price as may have been set for conversion of any debt or securities into Common Stock held on or after the date hereof by Sillerman until the first to occur of March 31, 2017 or the date the Note has been satisfied or converted (for the purposes hereof Robert F.X. Sillerman is the Company's Executive Chairman and Chief Executive Officer and/or any affiliate of Robert F.X. Sillerman is herein collectively, "Sillerman"). In connection with the Secured Convertible Note, the Company has entered into a Note Purchase Agreement (the "NPA") and a Security Agreement (the "Rant Security Agreement") with Rant, under which the Company has granted Rant a continuing security interest in substantially all assets of the Company. In connection with the issuance of the Secured Convertible Note, Sillerman and Rant entered into a subordination agreement subordinating repayment of the notes to the Debentures (as described in (b) hereof) and entered into an Intercreditor Agreement providing for the parties' respective rights and remedies with respect to payments against the collateral held as security for both of them. In connection with the Asset Purchase Agreement, and in addition to the consideration represented by the Secured Convertible Note and the Assumed Liabilities, the Company issued to Rant 4,435 shares of Company Series E Convertible Preferred Stock which, upon satisfaction of certain conditions including shareholder approval, will be convertible into shares of Company common stock equal to 22% of the outstanding common stock of the Company.

The number of shares will be adjusted for dilution between the date of closing and the date of any public offering by the Company of its common stock and to reflect additional capital structure changes through the first of (i) the date Sillerman converts debt and preferred shares to common shares pursuant to the Exchange Agreement just before an offering of the Company's common stock closes or (ii) March 31, 2017.

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This acquisition has been accounted for under the acquisition method of accounting in accordance with ASC 805, "Business Combinations". Under the acquisition method, the consideration transferred is measured at the acquisition closing date. The assets of Rant have been measured based on various preliminary estimates using assumptions that the Company's management believes are reasonable utilizing information currently available. Use of different estimates and judgments could yield different results. The Company has performed a preliminary allocation of the purchase price to the underlying net assets acquired and liabilities assumed based on their estimated fair values as of the acquisition date, with any excess of the purchase price allocated to goodwill. The Company has not completed the analysis of certain acquired assets and assumed liabilities, including, but not limited to, other identifiable intangible assets such as customer lists and technology. However, the Company is continuing its review of these items during the measurement period, and further changes to the preliminary allocation will be recognized as the valuations are finalized. Such valuations are being conducted using Level 3 inputs as described in ASC 820, "Fair Value Measurements and Disclosures", that are generally unobservable and typically reflect management's estimates of assumptions that market participants would use in pricing the asset or liability.

The preliminary allocation of the purchase price to the underlying net assets acquired and liabilities assumed based on their estimated fair values as of the acquisition date is as follows:

Goodwill	$7,589
Intangible assets	5,500
Total liabilities	(1,990)
	$11,099

The goodwill related to the Rant acquisition is tax deductible.

7. Property and Equipment

Property and Equipment consists of the following:

	September 30, 2016	June 30, 2016
Leasehold Improvements	$ 2,261	$2,261
Furniture and Fixtures	588	588
Computer Equipment	456	456
Software	164	164
Total	3,469	3,469
Accumulated Depreciation and Amortization	(2,132)	(2,055)
Property and Equipment, net	$ 1,337	$1,414

Depreciation and amortization charged to selling, general and administrative expenses for the three months ended September 30, 2016 and 2015 amounted to $77 and $53, respectively.

8. Intangible Assets and Goodwill

Description	Amortization Period	September 30, 2016 Amount	Accumulated Amortization	Carrying Value	June 30, 2016 Amount	Accumulated Amortization	Carrying Value
Wetpaint technology	60 months	$4,952	$ (3,368)	$1,584	$4,952	$ (3,276)	$1,676
Wetpaint trademarks	276 months	1,453	(427)	1,026	1,453	(415)	1,038
Wetpaint customer relationships	60 months	917	(832)	85	917	(827)	90
Choose Digital licenses	60 months	829	(574)	255	829	(559)	270
Choose Digital software	60 months	627	(234)	393	627	(212)	415
DraftDay tradename	84 months	180	(50)	130	180	(38)	142
Draftday non-compete agreements	6 months	30	(30)	—	30	(30)	—
DraftDay internally generated capitalized software	60 months	1,498	(394)	1,104	1,498	(303)	1,195
DraftDay customer relationships	24 months	556	(456)	100	556	(351)	205
Rant trademarks	120 months	2,700	(56)	2,644	—	—	—
Rant content	24 months	650	(68)	582	—	—	—
Rant technology	60 months	1,500	(64)	1,436	—	—	—
Rant advertising relationships	24 months	650	(68)	582	—	—	—
Other	various	326	(18)	308	326	(18)	308
Total		$16,868	$ (6,639)	$10,229	$11,368	$ (6,029)	$5,339

See Note 3, Summary of Significant Accounting Policies, for a discussion of the write-downs recorded with respect to intangible assets related to the Wetpaint and Choose Digital businesses in the quarter ended December 31, 2015 and to the DraftDay business in the quarter ended June 30, 2016. The changes in the gross amounts and useful lives of intangibles related to the Wetpaint, Choose Digital and DraftDay businesses, and to internally generated capitalized software, are a result of these write-downs during the three months ended December 31, 2015 and June, 30, 2016, as well as the abandonment of certain technology as of January 1, 2016, and internal development costs. See Note 6, Acquisitions, for a detailed description of DraftDay and Rant assets and liabilities purchased and their fair values on the date of the acquisition.

Amortization of intangible assets included in selling, general and administrative expenses for the three months ended September 30, 2016 and 2015 amounted to $610 and $797, respectively.

Future annual amortization expense expected is as follows:

Years ending June 30,	
2017	$2,370
2018	$3,026
2019	$1,730
2020	$1,367
2021	$1,036

Goodwill consists of the following:

Description	Amount
Balance at July 1, 2016	$11,270
Rant preliminary purchase price allocation	7,589
Balance at September 30, 2016	$18,859

9. Loans Payable

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	Maturity Date	Total Facility Amount	September 30, 2016	June 30, 2016
Convertible Debentures (the "Debentures"), net of discount	7/11/2017	$ 4,444	$3,155	$—
Secured Convertible Promissory Note (the "Secured Convertible Note")	7/8/2017	3,000	3,500	—
Line of Credit Promissory Note (the "Note")	10/24/2017	20,000	—	19,716
Line of Credit Grid Note (the "Grid Note")	12/31/2016	10,000	900	4,563
Secured Line of Credit (the "Secured Revolving Loan I")	12/31/2016	1,500	—	1,500
Secured Line of Credit (the "Secured Revolving Line of Credit")	12/31/2016	500	—	500
Secured Revolving Loan (the "Secured Revolving Loan")	12/31/2016	500	—	500
Secured Revolving Loan II (the "Secured Revolving Loan II")	12/31/2016	500	—	500
Secured Revolving Loan III (the "Secured Revolving Revolving Loan III")	12/31/2016	1,200	—	135
Convertible Promissory Note (the "RI Convertible Note")	12/31/2016	300	300	300
MGT Promissory Notes (the "MGT Promissory Notes")	7/31/2016	2,109	943	943
Kuusamo Promissory Notes (the "Kuusamo Promissory Notes")	3/8/2016	141	55	55
Total Loans Payable, net			$8,853	$28,712

Convertible Debentures

On July 12, 2016, the Company closed a private placement (the "Private Placement") of $4,444 principal amount of convertible debentures (the "Debentures") and common stock warrants (the "Warrants".) The Debentures and Warrants were issued pursuant to a Securities Purchase Agreement, dated July 12, 2016 (the “Purchase Agreement”), by and among the Company and certain accredited investors within the meaning of the Securities Act of 1933, as amended (the “Purchasers”). Upon the closing of the Private Placement, the Company received gross proceeds of $4,000 before placement agent fees, original issue discount, and other expenses associated with the transaction. $1,162 of the proceeds was used to repay the Grid Note. The placement agent fees of $420 and original issue discount of $444 were recorded as a reduction to the debenture balance and will be accreted to interest expense over the term of the Debentures.

The Debentures mature on the one-year anniversary of the issuance date thereof. The Debentures are convertible at any time at the option of the holder into shares of the the Company's common stock at an initial conversion price of $6.2660 per share (the “Conversion Price”). Based on such initial Conversion Price, the Debentures will be convertible into up to 780,230 shares of common stock. If we issue or sell shares of our common stock, rights to purchase shares of our common stock, or securities convertible into shares of our common stock for a price per share that is less than the Conversion Price then in effect, the Conversion Price then in effect will be decreased to equal such lower price. The adjustments to the Conversion Price will not apply to certain exempt issuances, including issuances pursuant to certain employee benefit plans or for certain acquisitions. In addition, the Conversion Price is subject to adjustment upon stock splits, reverse stock splits, and similar capital changes. However, in no event will the Conversion Price be less than $0.10 per share. The Debentures are secured by a first priority lien on substantially all of the Company's assets in accordance with a security agreement.

The Debentures bear interest at 10% per annum with interest payable upon maturity or on any earlier redemption date. At any time after the issuance date, we will have the right to redeem all or any portion of the outstanding principal balance of the Debentures, plus all accrued but unpaid interest at a price equal to 120% of such amount. The holders of Debentures shall have the right to convert any or all of the amount to be redeemed into common stock prior to redemption. Subject to certain exceptions, the Debentures contain customary covenants against incurring additional indebtedness and granting additional liens and contain customary events of default. Upon the occurrence of an event of default under the Debentures, a holder of Debentures may require the Company to pay the greater of (i) the outstanding principal amount, plus all accrued and unpaid interest, divided by the Conversion Price multiplied by the daily volume weighted average price or (ii) 115% of the outstanding principal amount plus 100% of accrued and unpaid interest. Pursuant to the Debentures, the Company is required to make amortizing payments of the aggregate

principal amount, interest, and other amounts outstanding under the Debentures. Such payments must be made beginning three months from the issuance of the Debentures and on the monthly anniversary through and including the maturity date. The Amortization Amount is payable in cash or in shares of our common stock pursuant to the conversion mechanism contained in the Debentures.

On July 20, 2016, the Company and the Purchasers entered into an Amendment to Securities Purchase Agreement and Consent to Modify Debentures (the "Amendment and Consent"). The Amendment and Consent provides that, while the Debentures are outstanding, Mr. Sillerman will guarantee that the Company shall have $1,000 available in its commercial bank account or otherwise available in liquid funds. At any time when the Company's available funds fall below $1,000, Mr. Sillerman will provide (the "Sillerman Guaranty") the amounts necessary to make-up the shortfall in an aggregate amount not to exceed $6,000; however, the first $5,000 of the guaranty shall be provided by drawing down on our Line of Credit with SIC IV. Any remaining amounts, up to a maximum aggregate of $1,000 million shall be provided by Sillerman. In connection with the Sillerman Guaranty, the Company's independent directors approved a fee of $100 as compensation for providing such guaranty.

As a part of the Private Placement, the Company issued Warrants to the Purchasers providing them with the right to purchase up to an aggregate of 354,650 shares of the Company's common stock at an initial exercise price of $6.5280 per share. Subject to certain limitations, the Warrants are exercisable on any date after the date of issuance and the exercise price for the Warrant is subject to adjustment for certain events, such as stock splits and stock dividends. If the Company issues or sells shares of its common stock, rights to purchase shares of its common stock, or securities convertible into shares of its common stock for a price per share that is less than the conversion price of the Debentures, the exercise price of the Warrants will be decreased to a lower price based on the amount by which the conversion price of the Debentures was reduced due to such transaction. The foregoing adjustments to the exercise price for future stock issues will not apply to certain exempt issuances, including issuances pursuant to certain employee benefit plans or for certain acquisitions. In addition, the exercise price is subject to adjustment upon stock splits, reverse stock splits, and similar capital changes. The Warrants will expire 5 years from the initial issuance date. The fair value of the warrants as of July 12, 2016 was determined to be $1,500 and the offset was recorded as a debt discount. The warrants are recorded as a liability due to the adjustment of the exercise price due to subsequent common stock issuances.

The Purchasers shall not have the right to convert the Debentures or exercise the Warrants to the extent that such conversion or exercise would result in such Purchaser being the beneficial owner in excess of 4.99% of our common stock. In addition, the Purchasers have no right to convert the Debentures or exercise the Warrants if the issuance of the shares of common stock upon such conversion or exercise would exceed the aggregate number of shares of our common stock which we may issue upon conversion of the Note and exercise of the Warrants without breaching our obligations under NASDAQ listing rules. Such limitation does not apply if our shareholders approve such issuances. We intend to promptly seek shareholder approval for issuances of shares of common stock issuable upon conversion of the Debentures and exercise of the Warrants.

In connection with the Private Placement, the Company and the Purchasers entered into a Registration Rights Agreement under which the Company was required, on or before 30 days after the closing of the Private Placement, to file a registration statement with the Securities and Exchange Commission (the "SEC") covering the resale of the shares of its common stock issuable pursuant to the Debentures and Warrants and to use commercially reasonable efforts to have the registration declared effective as soon as practicable, but in no event later than 90 days after the filing date. The Company will be subject to certain monetary penalties, as set forth in the Registration Rights Agreement, if the registration statement is not filed, does not become effective on a timely basis, or does not remain available for the resale (subject to certain allowable grace periods) of the Registrable Securities, as such term is defined in the Registration Rights Agreement.

Also in connection with the Private Placement, certain stockholders of the Company have executed Lock-Up Agreements, pursuant to which they have agreed not to sell any shares of the Company's common stock until the later of (i) six months following the issuance of the Debentures or (ii) 90 days following the effectiveness of a resale registration statement filed pursuant to the requirements of the Registration Rights Agreement.

The Company valued the Debentures as of July 12, 2016, the issuance date, using the methods of fair value as described ASC 820, "Fair Value Measurements and Disclosures" ("ASC 820"). The fair value of the conversion feature in the Debentures was determined to be $1,856 as of July 12, 2016 and the offset was recorded as a debt discount.

On October 12, 2016, the first amortization payment in the amount of $444, plus accrued interest of approximately $114 pursuant to the terms of the Debentures became due and payable to the Purchasers. The Company did not make such payment at the time it was due.

The Company has also not maintained the Minimum Cash Reserve as required by the Purchase Agreement. Pursuant to the terms of the Debentures, the failure to cure the failure to maintain the Minimum Cash Reserve within three trading days constitutes an Event of Default. Among other things: (1) at the Purchaser's election, the outstanding principal amount of the Debentures, plus accrued but unpaid interest, plus all interest that would have been earned through the one year anniversary of the original issue date if such interest has not yet accrued, liquidated damages and other amounts owed through the date of acceleration, shall become, immediately due and payable in either cash or stock pursuant to the terms of the Debentures; and (2) the interest rate on the Debentures will increase to the lesser of 18% or the maximum allowed by law. In addition to other remedies available to the

Purchasers, our obligation to repay amounts due under the Debentures is secured by a first priority security interest in and lien on all of our assets and property, including our intellectual property, and such remedies can be exercised by the Purchasers without additional notice to the Company.

The Company entered into waiver agreements with respect to the initial amortization payments due under the Debentures with Purchasers holding approximately 87% of the Debentures. The Waivers entered into with some of the Purchasers related to the failure to pay the amortization amounts do not address the failure to maintain the Minimum Cash Reserve.

Pursuant to the terms of the Debentures, the failure to cure the non-payment of the amortization amount within three trading days after the date such payment was due constitutes an Event of Default. Following the occurrence of an event of default, among other things: (1) at the Purchaser's election, the outstanding principal amount of the Debentures, plus accrued but unpaid interest, plus all interest that would have been earned through the one year anniversary of the original issue date if such interest has not yet accrued, liquidated damages and other amounts owed through the date of acceleration, shall become, immediately due and payable in either cash or stock pursuant to the terms of the Debentures; and (2) the interest rate on the Debentures will increase to the lesser of 18% or the maximum allowed by law. In addition to other remedies available to the Purchasers, our obligation to repay amounts due under the Debentures is secured by a first priority security interest in and lien on all of our assets and property, including our intellectual property, and such remedies can be exercised by the Purchasers without additional notice to the Company.

The Company did not receive a waiver from one of its debenture holders, holding approximately 13% of the principal amount of the Debentures with respect to the event of default arising out of the Company's failure to make the first amortization payment when due. Pursuant to the terms of the Debentures, such holder has sent a notice of acceleration, stating that the Company owes $696, reflecting the principal amount of the Debenture plus interest through November 1, 2016. Interest will accrue at 18% until this amount is satisfied. The Company is seeking to settle the matter with the holder; however, there can be no assurance that an agreement will be reached.

Secured Convertible Promissory Note

On July 8, 2016 the Company issued a Secured Convertible Promissory Note (the "Secured Convertible Note") to Rant in the amount of $3,000 as part of the consideration for the purchase of the Rant Assets.

The $3,000 Secured Convertible Note matures on July 8, 2017 barring any events of default or a change of control of the Company. The Secured Convertible Note bears interest at 12% per annum, payable at maturity. At the election of Rant, the Secured Convertible Note is convertible into shares of the Company's common stock at a price equal to the lower of (i) $5.20 per share, or (ii) such lower price as may have been set for conversion of any debt or securities into common stock held on or after the date hereof by Sillerman until the first to occur of March 31, 2017 or the date the Note has been satisfied or converted (for the purposes hereof Robert F.X. Sillerman is the Company's Executive Chairman and Chief Executive Officer and/or any affiliate of Robert F.X. Sillerman is herein collectively, "Sillerman"). The Company valued the conversion feature at issuance using methods of fair value as described in ASC 820 and it was determined to be $500. In connection with the Secured Convertible Note, the Company has entered into a Note Purchase Agreement (the "NPA") and a Security Agreement (the "Rant Security Agreement") with Rant, under which the Company has granted Rant a continuing security interest in substantially all assets of the Company. In connection with the issuance of the Secured Convertible Note, Sillerman and Rant entered into a subordination agreement subordinating repayment of the notes to the Debentures (as described in (b) hereof) and entered into an Intercreditor Agreement providing for the parties' respective rights and remedies with respect to payments against the collateral held as security for both of them.

The events of default under the Debentures noted above also constituted a default under the Secured Convertible Note issued in connection with the acquisition of Rant. The holder of the Secured Convertible Note has executed a waiver that provides that, until May 15, 2017, the events of default arising out of the failure to pay the amounts due under the Debentures as of the date of the waiver and the failure by the Company to maintain the Minimum Cash Reserve shall not constitute events of default for purposes of the Secured Convertible Note.

Line of Credit Promissory Note

On October 24, 2014, the Company and SIC III, a company affiliated with Mr. Sillerman, entered into a Securities Purchase Agreement (the "Securities Purchase Agreement") pursuant to which SIC III agreed to purchase certain securities issued by the Company for a total of $30,000. Pursuant to the Securities Purchase Agreement, the Company issued a Line of Credit Promissory Note (the “Note”), which provides for a $20,000 line of credit to the Company (see Note 11, Stockholders' Equity, for a discussion of the remaining $10,000 of the Securities Purchase Agreement). The Company also agreed to issue to SIC III warrants to purchase 1,000,000 shares of the Company’s common stock. The Company issued warrants to purchase 50,000 shares of the Company’s common stock for every $1,000 advanced under the Note. The warrants will be issued in proportion to the amounts the Company

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draws under the Note. The exercise price of the warrants will be 10% above the closing price of the Company’s shares on the date prior to the issuance of the warrants. Exercise of the warrants was subject to approval of the Company’s stockholders, which occurred on January 13, 2015.

The Note provides a right for the Company to request advances under the Note from time to time. The Note bears interest at a rate of 12% per annum, payable in cash on a quarterly basis. The Note matures on October 24, 2017. On October 24, 2014, SIC III made an initial advance under the Note in the principal amount of $4,500. On December 15, 2014, SIC III made an additional advance in the principal amount of $15,500 pursuant to the terms of the Note (the proceeds of which were used to repay amounts outstanding under the DB Line, as discussed above). As of September 30, 2016, the total outstanding principal amount of the Note was $20,000. The Note provides for a 3% discount, such that the amount advanced by SIC III was 3% less than the associated principal amount of the advances. Therefore, the net amount actually outstanding under the Note at September 30, 2016, was $19,666, which includes accretion of the discount of $266 (the 3% discount of $600 is being accreted to the principal balance over the life of the Note). From and after the occurrence and during the continuance of any event of default under the Note, the interest rate is automatically increased to 17% per annum.

In connection with the first drawdown of $4,500 under the Note, the Company issued SIC III warrants to purchase 11,250 shares of the Company’s common stock. These warrants have an exercise price of $70.20, representing a price equal to 10% above the closing price of the Company’s common stock on the day prior to issuance. In connection with the additional drawdown of $15,500 under the Note, the Company issued SIC III warrants to purchase 38,750 shares of the Company's common stock. These warrants have an exercise price of $72.60, representing a price equal to 10% above the closing price of the Companys common stock on the day prior to issuance. The warrants are exercisable for a period of five years from issuance. Stock compensation expense related to the issuances of warrants to SIC III was $2,049 during the year ended June 30, 2015.

The Note is not convertible into equity securities of the Company.

The Note also contains certain covenants and restrictions, including, among others, that, for so long as the Note is outstanding, the Company will not, without the consent of the holder of the Note, (i) make any loan or advance in excess of $500 to any officer, director, employee of affiliate of the Company (except advances and similar expenditures : (a) under the terms of employee stock or option plans approved by the Board of Directors, (b) in the ordinary course of business, consistent with past practice or (c) to its subsidiaries), (ii) incur any indebtedness that exceeds $1,000 in the aggregate other than indebtedness outstanding under the Note, (iii) guaranty any indebtedness of any unaffiliated third party, (iv) change the principal business of the Company or exit the Company's current business, provided that the foregoing is subject to the Board's compliance with its fiduciary duties, (v) sell, assign, or license material technology or intellectual property of the Company except (a) in the ordinary course of business, consistent with past practice, (b) sales and assignments thereof in any 12 month period that do not have a fair market value in excess of $500 or (c) in connection with a change of control transaction, (vi) enter into any corporate strategic relationship involving the payment, contribution or assignment by the Company of its assets that have a fair market value in excess of $1,000 or (vii) liquidate or dissolve the Company or wind up the business of the Company, except in connection with changes of control or merger, acquisition or similar transactions or as approved by the Company’s Board in compliance with their fiduciary duties.

On August 22, 2016, the Company and SIC III, entered into a Note Exchange Agreement pursuant to which $23,264, which represents all of the outstanding principal and accrued interest outstanding under the Notes, was exchanged for 23,264 shares of the Company’s Series C Preferred Stock at an exchange price of $1,000 per share. The Note Exchange Agreement provides for the newly issued shares to be held subject to the obligations to convert the shares into common stock on the terms and on the conditions set forth in the Exchange Agreement. After the exchange, the Notes were retired.

Interest expense on the Note was $382 and $613 for the three months ended September 30, 2016 and 2015, respectively.

Line of Credit Grid Note

On June 11, 2015, the Company and Sillerman Investment Company IV, LLC ("SIC IV") entered into a Line of Credit Grid Note (the "Grid Note"). The Grid Note provides a right for the Company to request advances under the Grid Note from time to time in an aggregate amount of up to $10,000. The Grid Note bears interest at a rate of 12% per annum, payable in cash on the maturity of the Grid Note. From and after the occurrence and during the continuance of any event of default under the Grid Note, the interest rate is automatically increased to 14% per annum.

The Grid Note is not convertible into equity securities of the Company.

In order for the Company to make requests for advances under the Grid Note, the Company must have an interest coverage ratio equal to or greater than 1, unless SIC IV waives this requirement. The interest coverage ratio is calculated by dividing: (a) the

Company's net income for the measurement period, plus the Company's interest expense for the measurement period, plus the Company's tax expense for the measurement period, by (b) the Company's interest expense for the measurement period, plus the amount of interest expense that would be payable on the amount of the requested draw for the twelve months following the request for the advance. The measurement period is the twelve months ended as of the last day of the last completed fiscal quarter prior to the request for the advance. The Company currently does not have an interest coverage ratio equal to or greater than 1, so advances would require the SIC IV to waive this requirement. In addition, in order to make requests for advances under the Grid Note, there can be no event of default under the Note at the time of the request for an advance, including that there has been no material adverse change in the business plan or prospects of the Company in the reasonable opinion of SIC IV.

The Grid Note matures on the first to occur of: (a) 12/31/2016 or (b) upon a "Change of Control Transaction." A "Change of Control Transaction" includes (i) a sale of all or substantially all of the assets of the Company or (ii) the issuance by the Company of common stock that results in any "person" or "group" becoming the "beneficial owner" of a majority of the aggregate ordinary voting power represented by the Company's issued and outstanding common stock (other than as a result of, or in connection with, any merger, acquisition, consolidation or other business combination in which the Company is the surviving entity following the consummation thereof), excluding transactions with affiliates of the Company.

If an event of default occurs under the Grid Note, SIC IV has the right to require the Company to repay all or any portion of the Grid Note. An event of default is deemed to have occurred on: (i) the non-payment of any of the amounts due under the Grid Note within five (5) Business Days after the date such payment is due and payable; (ii) dissolution or liquidation, as applicable, of the Company; (iii) various bankruptcy or insolvency events shall have occurred, (iv) the inaccuracy in any material respect of any warranty, representation, statement, report or certificate the Company makes to Lender under the Note hereto; (v) the Company contests, disputes or challenges in any manner, whether in a judicial proceeding or otherwise, the validity or enforceability of any material provision in the Grid Note; or (vi) a material adverse change in the business plan or prospects of the Company in the reasonable opinion of SIC IV.

As of September 30, 2016 and June 30, 2016 the principal amount outstanding under the Grid Note was $900 and $4,563, respectively.

On July 8, 2016, the Company and SIC III, SIC IV and SIC VI entered into an Exchange Agreement pursuant to which, subject to adjustment, (i) 3,000 shares of the Company's Series C Preferred Stock owned by SIC III are to be exchanged for 890,898 shares of the Company's common stock and (ii) all of the debt held by Mr. Sillerman and such affiliates is to be exchanged for 5,066,654 shares of the Company's common stock. Issuance of the shares is conditioned upon approval of the Company's shareholders, the closing of an offering of the Company's common stock in the amount of at least $10,000, approval of its Listing of Additional Shares application with NASDAQ, the Company shall not be subject to any bankruptcy proceeding, and various other conditions. The exchange price shall be equal to the lesser of $5.20 and the price at which the Debentures can be exchanged for shares of the Company's common stock. The Company received an independent valuation with respect to the original exchange that the exchange price of $5.20 reflects fair value. Any additional change is subject to the receipt by the Company of an updated fair value determination. The agreement provides for termination in the event the conditions are not satisfied by March 31, 2017. At the date of this filing, this transaction has not yet closed.

Amended Exchange Agreement/Amended Grid Note

On July 18, 2016, SIC III, SIC IV and SIC VI, LLC entered into an amendment to the Exchange Agreement relating to the exchange of debt and shares of the Series C Preferred Stock of the Company for shares of the Company's common stock. The Exchange Agreement modified the Grid Note to provide that SIC IV shall be entitled to

repayment of up to $2,000 of the outstanding principal balance of the Grid Note and the Company shall be entitled to draw up to an additional $5,000.

On August 22, 2016, the Company and SIC IV, entered into a Note Exchange Agreement pursuant to which $3,150, which represents all of the outstanding principal and accrued interest outstanding under the Grid Note other than $900, was exchanged for 3,150 shares of the Company's Series C Preferred Stock at an exchange price of $1,000 per share. The Note Exchange Agreement provides for the newly issued shares to be held subject to the obligations to convert the shares into common stock on the terms and on the conditions set forth in the Exchange Agreement. Therefore, the outstanding balance of the Grid Note at September 30, 2016 was $900.

Interest expense on the Grid Note for the three months ended September 30, 2016 and 2015 was $77 and $96, respectively.

In connection with the Company's entering into the Perk Credit Agreement (as defined below), SIC IV agreed to subordinate payment of the Grid Note to amounts owed to Perk under the Perk Credit Agreement. SIC IV also consented to the consummation

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of the Asset Purchase Agreement with Perk. In exchange for such consent and such agreement to subordinate, the Company agreed to provide SIC IV a security interest in the assets of the Company in connection with amounts outstanding under the Grid Note.

The Company entered into a Security Agreement with SIC IV , pursuant to which the Company pledged its assets in connection with such security interest. The foregoing descriptions of the Security Agreement is qualified in its entirety by reference to the full text of the form of Security Agreement.

Secured Revolving Loans and Lines of Credit

On January 27, 2016, Sillerman Investment Company VI LLC ("SIC VI"), an affiliate of Robert F.X. Sillerman, the Executive Chairman and Chief Executive Officer of the Company, entered into a Secured Revolving Loan agreement (the "Secured Revolving Loan I") with the Company and its subsidiaries, wetpaint.com, Inc. and Choose Digital Inc. (collectively, the "Subsidiaries"), pursuant to which the Company can borrow up to $1,500. The Secured Revolving Loan bears interest at the rate of 12% per annum. In connection with the Secured Revolving Loan, the Company and the Subsidiaries have entered into a Security Agreement (the "Security Agreement") with SIC VI, under which the Company and the Subsidiaries have granted SIC VI a continuing security interest in all assets of the Company and the Subsidiaries, with the exception of the Company's interest in DraftDay Gaming Group, Inc. The Company intends to use the proceeds from the Secured Revolving Loan to fund working capital requirements and for general corporate purposes in accordance with a budget to be agreed upon by SIC VI and the Company. As of June 30, 2016, $1,500 had been advanced thereunder. Interest expense on the Secured Revolving Loan I was $27 for the three months ended September 30, 2016.

The Company and its subsidiaries wetpaint.com, inc., and Choose Digital, Inc. (the "Subsidiaries") entered into a secured, revolving Line of Credit on March 29, 2016 with SIC VI (the "Secured Revolving Line of Credit"), pursuant to which the Company can borrow up to $500. The Secured Revolving Line of Credit bears interest at the rate of 12% per annum.
In connection with the Secured Revolving Line of Credit, the Company and the Subsidiaries have entered into a Security Agreement (the "Security Agreement") with SIC VI, under which the Company and the Subsidiaries have granted SIC VI a continuing security interest in all assets of the Company and the Subsidiaries, with the exception of the Company's interest in DraftDay Gaming Group, Inc. The Company intends to use the proceeds from the Secured Revolving Line of Credit to fund working capital requirements and for general corporate purposes in accordance with a budget to be agreed upon by SIC VI and the Company. At June 30, 2016, $500 had been advanced thereunder. Interest expense on the Secured Revolving Line of Credit was $9 for the three months ended September 30, 2016.

On April 29, 2016, SIC VI entered into an additional secured revolving loan agreement with the Company and the Subsidiaries ("Secured Revolving Loan"), pursuant to which the Company can borrow up to $500. Loans under this loan agreement bear interest at the rate of 12% per annum and mature on December 31, 2016, barring any events of default or a change of control of the Company. As of June 30, 2016, $500 had been advanced thereunder. Interest expense on the Secured Revolving Loan was $9 for the three months ended September 30, 2016.

On May 16, 2016, SIC VI entered into an additional secured revolving loan agreement with the Company and the Subsidiaries ("Secured Revolving Loan II"), pursuant to which the Company can borrow up to $500. Loans under this loan agreement bear interest at the rate of 12% per annum and mature on December 31, 2016, barring any events of default or a change of control of the Company. As of June 30, 2016, $500 had been advanced thereunder. Interest expense on the Secured Revolving Loan II was $9 for the three months ended September 30, 2016.

On June 27, 2016, SIC VI entered into a secured revolving loan agreement (the “Secured Revolving Loan III”) with the Company and its subsidiaries, pursuant to which the Company can borrow up to $1,200. The Secured Revolving Loan III bears interest at the rate of 12% per annum and matures on December 31, 2016, barring any events of default or a change of control of the Company. At June 30, 2016, $135 had been advanced thereunder. Interest expense on the Secured Revolving Loan III was $8 for the three months ended September 30, 2016.

On August 22, 2016, the Company and SIC VI entered into a Note Exchange Agreement pursuant to which $3,608, which represents all of the outstanding principal and accrued interest of certain notes held by SIC VI was exchanged for 3,608 shares of the Company’s Series C Preferred Stock at an exchange price of $1,000 per share. The Note Exchange Agreement provides for the newly issued shares to be held subject to the obligations to convert the shares into common stock on the terms and on the conditions set forth in the Exchange Agreement. The Secured Revolving Loans and Lines of Credit were retired with the exchange transaction.

Related Approvals

Because each of the transactions referred to in the foregoing sections involved Mr. Sillerman, or an affiliate of his, the transactions were subject to certain rules regarding "affiliate" transactions. As such, each was approved by a Special Committee of the Board of Directors and a majority of the independent members of the Board of Directors of the Company.

Convertible Promissory Note

On June 27, 2016, the Company entered into a Convertible Promissory Note with Reaz Islam (“RI”), the Company's Chief of Staff, pursuant to which RI loaned the Company $300 (the “RI Convertible Note”). The RI Convertible Note bears interest at a rate of 12% and matures on December 31, 2016. RI shall have the right to convert the RI Convertible Note into shares of the common stock of the Company at such time, on such terms, and in accordance with such procedures as Mr. Sillerman shall have the right to convert debt held by Mr. Sillerman or his affiliates into shares of the Company’s common stock. The RI Convertible Note is subordinate to any note held by Mr. Sillerman or his affiliates and RI has agreed to execute any agreement reasonably required in connection therewith. As of September 30, 2016 and June 30, 2016, $300 of principal was outstanding under the RI Convertible Note.

Promissory Notes

In accordance with the Assets Purchase Agreement to purchase the DraftDay Business (see Note 6, Acquisitions), the Company issued promissory notes to MGT Capital ("MGT Promissory Notes") in the principal amount of $234 due and paid on September 29, 2015 and in the aggregate principal amount of $1,875 due March 8, 2016. The Company was not able to make the payment at the due date and on March 24, 2016 converted $824 of the promissory notes to common stock and $110 of the promissory notes to a Series D Preferred Stock (see Note 11, Stockholders' Equity (Deficit)). All such notes bear interest at a rate of 5% per annum. On April 13, 2016, MGT converted all 110 shares of the Company's Series D Preferred Stock into shares of common stock of the Company. Accordingly, the Company issued 18,332 shares of common stock to MGT. Thereafter, there are no shares of the Company's Series D Preferred Stock outstanding.

On June 14, 2016, the Company entered into a second exchange agreement with MGT (the “Second MGT Exchange Agreement”) relating to the $940 remaining due under the MGT Note (see Note 6, Acquisitions). Under the Second MGT Exchange Agreement, the MGT Note shall be exchanged in full for (a) $11 in cash representing accrued interest and (b) 132,092 shares of Company common stock, subject to certain adjustments. Issuance of the shares is conditioned upon approval of the Company’s shareholders and approval of its Listing of Additional Shares application with NASDAQ. Therefore, the outstanding balance of the MGT Promissory Notes was $943 at September 30, 2016. The Company recorded interest expense of $12 for the three months ended September 30, 2016. On October 10, 2016, the Company satisfied the MGT Note through the issuance of 136,304 shares of its common stock and payment of interest of $16.

In exchange for releasing certain liens and encumbrances with respect to the DraftDay Business(see Note 6, Acquisitions), the Company issued promissory notes to Kuusamo Capital Ltd. ("Kuusamo Promissory Notes") in the principal amount of $16 due and paid on September 29, 2015 and in the aggregate principal amount of $125 due March 8, 2016. The Company was not able to make the payment at the due date. All such notes bear interest at a rate of 5% per annum.

The outstanding balance of the Kuusamo Promissory Notes was $55 at September 30, 2016. The Company recorded interest expense of $1 for the three months ended September 30, 2016.

Accounts Payable Settlements

North America Photon Infotech Ltd. (“Photon”), a company based in Mauritius that had provided development services to the Company, filed suit in California on March 28, 2016 to collect approximately $218 owed by the Company to Photon. The Company settled this matter on May 12, 2016 in part by issuing a Note in the amount of $110, payable in six months. Such note was settled on November 15, 2016 with the issuance of 31,510 shares of the Company's common stock.

On April 7, 2016, the Company issued a note in the amount of $56 to Simulmedia, Inc., a former vendor of the Company, as partial settlement of the outstanding balance due to Simulmedia, Inc. for services provided.

Pandera Systems, LLC (“Pandera”), which formerly provided analytics development services to the Company, filed suit on March 11, 2016 against the Company to demand collection of amounts due for such services. The Company settled this matter on April 12, 2016, in part by issuing a note in the amount of $50.

Interest expense on these notes issued in connection with settlements with vendors was $14 for the three months ended September 30, 2016.

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10. Commitments and Contingencies

Litigation

CFGI, LLC, a former provider of consulting services of the Company, served the Company with a lawsuit to collect approximately $200 owed by the Company to CFGI, LLC on September 9, 2016. The Company settled this matter for $150 and the case was dismissed.

Creditors Adjustment Bureau, Inc., a collection agency in California, has filed suit in Santa Clara County Superior Court (California) to collect an $84 debt assigned to it by Gigya Inc. The Company settled this matter for $55.

A Complaint (Index #654984/2016) was filed by Andy Mule, on behalf of himself and others similarly situated, in the Supreme Court of the State of New York. The Complaint, which names the Company, each of its current directors, and President, as a former director, as defendants, claims a breach of fiduciary duty relating to the terms of a proposed conversion of debt and preferred shares into common equity by Mr. Sillerman and/or his affiliates. The Complaint seeks unspecified damages and such relief as the Court may deem appropriate. The Company accepted service on October 4, 2016, and filed a motion to dismiss on November 14, 2016. The Company believes that this claim is without merit.

A Complaint (Case #8:16-cv-02101-DOC-JCG) was filed in the United States District Court, Central District of California, Southern Division by Stephan Wurth Photography, Inc. The Complaint, which names Wetpaint.com, Inc. and two former employees of Rant, Inc., claims copyright infringement relating to photographs of Anna Kournikova that first appeared on a Rant website some time ago and continued to appear after our purchase of Rant on July 8, 2016. We have not yet been served in this matter. If and when we are served, we intend to vigorously defend the matter.
The Company is subject to litigation and other claims that arise in the ordinary course of business. While the ultimate result of our outstanding legal matters cannot presently be determined, the Company does not expect that the ultimate disposition will have a material adverse effect on its results of operations or financial condition. However, legal matters are inherently unpredictable and subject to significant uncertainties, some of which are beyond our control. As such, there can be no assurance that the final outcome will not have a material adverse effect on the Company's financial condition and results of operations.

11. Stockholders’ Equity

Reverse Stock Split

On September 16, 2016, the Company amended its Certificate of Incorporation to effect a reverse stock split of all issued and outstanding shares of common stock at a ratio of 1 for 20 (the "Reverse Stock Split"). Owners of fractional shares outstanding after the Reverse Stock Split were paid cash for such fractional interests. The effective date of the Reverse Stock Split is September 16, 2016. All common stock share amounts disclosed in these financial statements have been adjusted to reflect the Reverse Stock Split.

Common Stock

As of September 30, 2016 there were 300,000,000 shares of authorized common stock and 3,056,353 shares of common stock issued and outstanding, respectively. As of June 30, 2016 there were 300,000,000 shares of authorized common stock and 3,023,753 shares of common stock issued and outstanding, respectively. Except as otherwise provided by Delaware law, the holders of the Company's common stock are entitled to one vote per share on all

matters to be voted upon by the stockholders.

Preferred Stock