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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

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**FORM 8-K**

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**CURRENT REPORT  
Pursuant to Section 13 OR 15(d)  
of the Securities Exchange Act of 1934**

**Date of Report (Date of earliest event reported): July 26, 2013**

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**PEPCO HOLDINGS, INC.**  
(Exact name of registrant as specified in its charter)

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

**001-31403**  
(Commission  
File Number)

**52-2297449**  
(IRS Employer  
Identification No.)

**701 Ninth Street, N.W., Washington, DC**  
(Address of principal executive offices)

**20068**  
(Zip Code)

**Registrant's telephone number, including area code (202) 872-2000**

**Not Applicable**  
(Former name or former address, if changed since last report.)

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

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
  - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
  - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
  - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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## **Item 2.01 Completion of Acquisition or Disposition of Assets.**

As previously disclosed, in March 2013, Pepco Holdings, Inc. (PHI) decided to begin to pursue the early termination of its remaining cross-border energy lease investments, which consisted of hydroelectric generation facilities, coal-fired electric generation facilities and natural gas distribution networks located outside of the United States. Each of these lease investments had been structured as a sale and leaseback transaction, commonly referred to as a sale-in, lease-out transaction, and was held through PHI's wholly owned subsidiary, Potomac Capital Investment Corporation, and its subsidiaries (collectively, PCI). As of March 31, 2013, PCI's cross-border energy lease portfolio consisted of six lease investments with an aggregate net investment value of \$869 million. Beginning in April 2013 and culminating on July 26, 2013, PCI consummated the early termination of all of its remaining cross-border energy lease investments with the lessees.

As consideration for the early termination of the cross-border energy lease investments and upon the consummation thereof, PHI received aggregate net cash proceeds of \$873 million (net of aggregate termination payments of \$2.1 billion used to retire the non-recourse debt associated with the terminated leases). It is anticipated that the aggregate pre-tax loss, including transaction costs, to be recognized by PHI on the early termination of the cross-border energy lease investments during 2013 will be approximately \$3 million (\$2 million after-tax). PHI recorded an aggregate pre-tax loss, including transaction costs, of approximately \$14 million (\$9 million after-tax) in the second quarter of 2013, and expects to record a pre-tax gain, including transaction costs, of approximately \$11 million (\$7 million after-tax) in the third quarter of 2013. The pre-tax loss represents the excess of the carrying value of the terminated leases over the net cash proceeds received, and the pre-tax gain represents the excess of the net cash proceeds received over the carrying value of the terminated leases. As a result of the early termination of the remaining cross-border energy lease investments, PHI expects to report the operations associated with the cross-border energy lease investments as discontinued operations beginning in the third quarter of 2013.

The lessees with respect to the terminated cross-border energy leases were Energie AG Oberösterreich, TIWAG-Tiroler Wasserkraft AG, GMK Gasnetwork B.V., GGR Gasnetwork B.V, NRE Gasnetwork B.V. and Bolsover Equipment Leasing Ltd. Other than in connection with the lease investments, there are no material relationships between (i) any of these lessees, and (ii) PHI, or, to PHI's knowledge, any of its affiliates, any director or officer of PHI, or any associate of any such director or officer.

## **Item 9.01 Financial Statements and Exhibits.**

### **(b) Unaudited Pro Forma Condensed Consolidated Financial Information**

The following unaudited pro forma condensed consolidated financial information of PHI is presented in Exhibit 99.1 and is incorporated herein by reference:

- Unaudited pro forma condensed consolidated statements of (loss) income from continuing operations for the three months ended March 31, 2013 and 2012
- Unaudited pro forma condensed consolidated statements of income from continuing operations for the years ended December 31, 2012, 2011 and 2010
- Unaudited pro forma condensed consolidated balance sheet as of March 31, 2013
- Notes to the unaudited pro forma condensed consolidated balance sheet and statements of (loss) income from continuing operations

(d) Exhibits

<u>Exhibit No.</u>	<u>Description of Exhibit</u>
99.1	Unaudited Pro Forma Condensed Consolidated Financial Information

**Forward-Looking Statements**

Some of the statements contained in this Current Report on Form 8-K with respect to PHI, including PHI's subsidiaries, are forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, and Section 27A of the Securities Act of 1933, as amended, and are subject to the safe harbor created thereby under the Private Securities Litigation Reform Act of 1995. These statements include declarations regarding the intents, beliefs, estimates and current expectations of PHI and such subsidiaries. In some cases, you can identify forward-looking statements by terminology such as "may," "might," "will," "should," "could," "expects," "intends," "assumes," "seeks to," "plans," "anticipates," "believes," "projects," "estimates," "predicts," "potential," "future," "goal," "objective," or "continue" or the negative of such terms or other variations thereof or comparable terminology, or by discussions of strategy that involve risks and uncertainties. Forward-looking statements involve estimates, assumptions, known and unknown risks, uncertainties and other factors that may cause PHI's and such subsidiaries' actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by such forward-looking statements. Therefore, forward-looking statements are not guarantees or assurances of future performance, and actual results could differ materially from those indicated by the forward-looking statements.

The forward-looking statements contained herein are qualified in their entirety by reference to the following important factors, which are difficult to predict, contain uncertainties, are beyond PHI's or such subsidiaries' control and may cause actual results to differ materially from those contained in forward-looking statements:

- Changes in governmental policies and regulatory actions affecting the energy industry or PHI or any of its subsidiaries;
- The outcome of pending and future rate cases, including the possible disallowance of recovery of costs and expenses;
- The presentation and aggregate effects of the termination of the cross-border energy lease investments on PHI's consolidated financial statements;
- The resolution of outstanding tax matters with the IRS related to PHI's former cross-border energy lease investments, and the funding of any additional taxes, interest or penalties that may be due;
- The expenditures necessary to comply with regulatory or governmental requirements, including regulatory or governmental orders, and to implement reliability enhancement, emergency response and customer service improvement programs;
- Possible fines, penalties or other sanctions assessed by regulatory or governmental authorities against PHI or its subsidiaries;
- The impact of adverse publicity and media exposure, which could render PHI or such subsidiaries vulnerable to increased regulatory or governmental oversight and negative customer perception;
- Changes in tax rates or policies;
- Changes in accounting standards or practices;

- Unanticipated changes in operating expenses and capital expenditures;
- Legal and administrative proceedings (whether civil or criminal) and settlements that affect PHI's or its subsidiaries' business and profitability;
- Interest rate fluctuations and the impact of credit and capital market conditions on the ability to obtain funding on favorable terms; and
- Effects of geopolitical and other events, including the threat of domestic terrorism or cyber attacks.

These forward-looking statements are also qualified by, and should be read together with, the risk factors included in Part I, Item 1A. "Risk Factors" and other statements in PHI's Annual Report on Form 10-K for the year ended December 31, 2012, as filed with the Securities and Exchange Commission (SEC), and in PHI's Quarterly Report on Form 10-Q for the quarter ended March 31, 2013, as filed with the SEC, and investors should refer to such risk factors and other statements in evaluating the forward-looking statements contained in this Current Report on Form 8-K.

Any forward-looking statements speak only as to the date this Current Report on Form 8-K was filed with the SEC, and PHI does not undertake an obligation to update any forward-looking statements to reflect events or circumstances after the date on which such statements are made or to reflect the occurrence of unanticipated events. New factors emerge from time to time, and it is not possible for PHI to predict all such factors. Furthermore, it may not be possible to assess the impact of any such factor on PHI's or its subsidiaries' business (viewed independently or together), or the extent to which any factor, or combination of factors, may cause results to differ materially from those contained in any forward-looking statement. The foregoing factors should not be construed as exhaustive.

## SIGNATURES

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

PEPCO HOLDINGS, INC.

(Registrant)

Date: August 1, 2013

/s/ FRED BOYLE

Name: Frederick J. Boyle

Title: Senior Vice President and  
Chief Financial Officer

## INDEX OF EXHIBITS FILED HEREWITH

<u>Exhibit No.</u>	<u>Description of Exhibit</u>
99.1	Unaudited Pro Forma Condensed Consolidated Financial Information

**Unaudited Pro Forma Condensed Consolidated Financial Information of Pepco Holdings, Inc. as of March 31, 2013, and for the three months ended March 31, 2013 and 2012, and for the years ended December 31, 2012, 2011 and 2010**

Between 1994 and 2002, PCI entered into cross-border energy lease investments (the lease portfolio) consisting of hydroelectric generation facilities, coal-fired electric generation facilities and natural gas distribution networks located outside of the United States. Each of these lease investments was structured as a sale and leaseback transaction commonly referred to as a sale-in, lease-out, or SILO, transaction. As of March 31, 2013, the lease portfolio consisted of six investments with a net investment value of \$869 million.

In March 2013, PHI began to pursue the early termination of its remaining cross-border energy lease investments with its lessees. During the second quarter of 2013, PHI entered into agreements with lessees to terminate early five of the six lease investments. Upon closing, PHI received aggregate net cash proceeds of \$693 million (net of aggregate termination payments of \$1.4 billion used to retire the non-recourse debt associated with the terminated leases) and recorded a pre-tax loss, including transaction costs, of approximately \$14 million (\$9 million after-tax) in the second quarter of 2013, representing the excess of the carrying value of the terminated leases over the net cash proceeds received.

During July 2013, PHI entered into an agreement with the lessee of the last remaining cross-border energy lease investment to terminate early the investment. Upon closing on July 26, 2013, PHI received aggregate net cash proceeds of \$180 million (net of aggregate termination payments of \$665 million used to retire the non-recourse debt associated with the terminated leases) and expects to record a pre-tax gain, including transaction costs, of approximately \$11 million (\$7 million after-tax) in the third quarter of 2013, representing the excess of the net cash proceeds received over the carrying value of the terminated leases. The aggregate financial impact upon completion of the early terminations of the cross-border energy lease investments in 2013 is expected to be a pre-tax loss, including transaction costs, of approximately \$3 million (\$2 million after-tax).

After each early termination transaction was closed for each of the six cross-border energy lease investments, PHI retained no continuing involvement in the terminated lease investments. Upon completion of the termination of its last lease investment in July 2013, PHI completed the disposal of the cross-border energy lease component of its business (which represented a substantial portion of the Other Non-Regulated segment's earnings) and, as a result, expects to report the operations associated with this component of its business as a discontinued operation beginning in the third quarter of 2013, at which time this component will no longer be a part of PHI's Other Non-Regulated segment for financial reporting purposes.

The following unaudited pro forma condensed consolidated financial statements are presented for PHI solely to illustrate the effects of the early termination of its cross-border energy lease investments with its lessees and the use of the net proceeds to repay short-term debt of PHI. The unaudited pro forma condensed consolidated balance sheet as of March 31, 2013 illustrates the estimated effects of the early terminations as if the transactions had occurred on March 31, 2013. The unaudited pro forma condensed consolidated statements of (loss) income from continuing operations for the three months ended March 31, 2013 and 2012, and for the years ended December 31, 2012, 2011 and 2010, illustrate the estimated effects of the early terminations as if the transactions had occurred at the beginning of the earliest period presented. These pro forma adjustments and assumptions are described in the accompanying notes to the unaudited pro forma condensed consolidated financial statements.

The unaudited pro forma condensed consolidated financial statements have been prepared in accordance with Article 11 of Regulation S-X using assumptions and estimates (based upon information available at the time of filing this report) that PHI believes are reasonable under the circumstances and are intended for informational purposes only. They are not necessarily indicative of the financial results that would have occurred if the transactions described herein had taken place on the dates indicated, nor are they indicative of the future consolidated results of PHI. However, management

believes that the estimates and assumptions used provide a reasonable basis for presenting the significant effects of the early terminations of PHI's remaining cross-border energy lease investments with its lessees. Management also believes the pro forma adjustments give appropriate effect to the estimates and assumptions considered by management and are applied in conformity with accounting principles generally accepted in the United States of America.

The following unaudited pro forma condensed consolidated statements of (loss) income from continuing operations for the three months ended March 31, 2013 and 2012, and for the years ended December 31, 2012, 2011 and 2010, and the unaudited pro forma condensed consolidated balance sheet as of March 31, 2013, have been derived from and should be read in conjunction with the historical consolidated financial statements of PHI as of March 31, 2013 and for the three months ended March 31, 2013 and 2012 (unaudited) and for the years ended December 31, 2012, 2011 and 2010 (audited), including the related notes, filed with the Securities and Exchange Commission on Form 10-Q on May 3, 2013 and on Form 10-K on March 1, 2013, respectively.



**PEPCO HOLDINGS, INC. AND SUBSIDIARIES**  
**UNAUDITED PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF LOSS**  
**FROM CONTINUING OPERATIONS**  
**FOR THE THREE MONTHS ENDED MARCH 31, 2013**

	<u>As Filed</u>	<u>Pro Forma Adjustments</u>	<u>Pro Forma, as Adjusted</u>
	<i>(millions of dollars, except per share data)</i>		
<b>Operating Revenue</b>			
Power Delivery	\$1,124	\$ —	\$ 1,124
Pepco Energy Services	97	—	97
Other	(369)	368(a)(b)	(1)(c)
Total Operating Revenue	<u>852</u>	<u>368</u>	<u>1,220</u>
<b>Operating Expenses</b>			
Fuel and purchased energy	600	—	600
Other services cost of sales	40	—	40
Other operation and maintenance	230	(1)(d)	229
Depreciation and amortization	112	—	112
Other taxes	105	—	105
Deferred electric service costs	1	—	1
Total Operating Expenses	<u>1,088</u>	<u>(1)</u>	<u>1,087</u>
<b>Operating (Loss) Income</b>	<u>(236)</u>	<u>369</u>	<u>133</u>
<b>Other Income (Expenses)</b>			
Interest expense	(67)	— (f)	(67)
Other income	8	—	8
Total Other Expenses	<u>(59)</u>	<u>—</u>	<u>(59)</u>
<b>(Loss) Income from Continuing Operations Before Income Tax Expense</b>	<u>(295)</u>	<u>369</u>	<u>74</u>
<b>Income Tax Expense Related to Continuing Operations</b>	<u>135</u>	<u>49(g)</u>	<u>184</u>
<b>Net Loss from Continuing Operations</b>	<u>\$ (430)</u>	<u>\$ 320</u>	<u>\$ (110)</u>
<b>Basic and Diluted Loss per Share Information</b>			
Weighted average shares outstanding – Basic (millions)	<u>237</u>		<u>237</u>
Weighted average shares outstanding – Diluted (millions)	<u>237</u>		<u>237</u>
Loss per share of common stock from Continuing Operations – Basic and Diluted	<u>\$ (1.82)</u>		<u>\$ (0.46)</u>

The accompanying Notes are an integral part of this Unaudited Pro Forma Condensed Consolidated Statement of Loss from Continuing Operations.

**PEPCO HOLDINGS, INC. AND SUBSIDIARIES**  
**UNAUDITED PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF INCOME**  
**FROM CONTINUING OPERATIONS**  
**FOR THE THREE MONTHS ENDED MARCH 31, 2012**

	<u>As Filed</u>	<u>Pro Forma Adjustments</u>	<u>Pro Forma, as Adjusted</u>
	<i>(millions of dollars, except per share data)</i>		
<b>Operating Revenue</b>			
Power Delivery	\$1,055	\$ —	\$ 1,055
Pepco Energy Services	178	—	178
Other	9	(13)(a)	(4)(c)
Total Operating Revenue	<u>1,242</u>	<u>(13)</u>	<u>1,229</u>
<b>Operating Expenses</b>			
Fuel and purchased energy	641	—	641
Other services cost of sales	47	—	47
Other operation and maintenance	224	— (d)	224
Depreciation and amortization	110	—	110
Other taxes	104	—	104
Deferred electric service costs	(15)	—	(15)
Total Operating Expenses	<u>1,111</u>	<u>—</u>	<u>1,111</u>
<b>Operating Income</b>	<u>131</u>	<u>(13)</u>	<u>118</u>
<b>Other Income (Expenses)</b>			
Interest expense	(65)	3(f)	(62)
Other income	8	—	8
Total Other Expenses	<u>(57)</u>	<u>3</u>	<u>(54)</u>
<b>Income from Continuing Operations Before Income Tax Expense</b>	74	(10)	64
<b>Income Tax Expense Related to Continuing Operations</b>	11	— (g)	11
<b>Net Income from Continuing Operations</b>	<u>\$ 63</u>	<u>\$ (10)</u>	<u>\$ 53</u>
<b>Basic and Diluted Earnings per Share Information</b>			
Weighted average shares outstanding – Basic (millions)	<u>228</u>		<u>228</u>
Weighted average shares outstanding – Diluted (millions)	<u>228</u>		<u>228</u>
Earnings per share of common stock from Continuing Operations – Basic and Diluted	<u>\$ 0.28</u>		<u>\$ 0.23</u>

The accompanying Notes are an integral part of this Unaudited Pro Forma Condensed Consolidated Statement of Income from Continuing Operations.

**PEPCO HOLDINGS, INC. AND SUBSIDIARIES**  
**UNAUDITED PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF INCOME**  
**FROM CONTINUING OPERATIONS**  
**FOR THE YEAR ENDED DECEMBER 31, 2012**

	As Filed	Pro Forma Adjustments	Pro Forma, as Adjusted
	<i>(millions of dollars, except per share data)</i>		
<b>Operating Revenue</b>			
Power Delivery	\$4,378	\$ —	\$ 4,378
Pepco Energy Services	662	—	662
Other	41	(50)(a)	(9)(c)
Total Operating Revenue	<u>5,081</u>	<u>(50)</u>	<u>5,031</u>
<b>Operating Expenses</b>			
Fuel and purchased energy	2,476	—	2,476
Other services cost of sales	170	—	170
Other operation and maintenance	911	(3)(d)	908
Depreciation and amortization	454	—	454
Other taxes	432	—	432
Gains on early terminations of finance leases held in trust	(39)	39(e)	—
Deferred electric service costs	(5)	—	(5)
Impairment losses	12	—	12
Total Operating Expenses	<u>4,411</u>	<u>36</u>	<u>4,447</u>
<b>Operating Income</b>	<u>670</u>	<u>(86)</u>	<u>584</u>
<b>Other Income (Expenses)</b>			
Interest and dividend income	1	—	1
Interest expense	(265)	11(f)	(254)
Gain from equity investments	1	—	1
Impairment losses	(1)	—	(1)
Other income	35	—	35
Total Other Expenses	<u>(229)</u>	<u>11</u>	<u>(218)</u>
<b>Income from Continuing Operations Before Income Tax Expense</b>	441	(75)	366
<b>Income Tax Expense Related to Continuing Operations</b>	156	(35)(g)	121
<b>Net Income from Continuing Operations</b>	<u>\$ 285</u>	<u>\$ (40)</u>	<u>\$ 245</u>
<b>Basic Share Information</b>			
Weighted average shares outstanding – Basic (millions)	<u>229</u>		<u>229</u>
Earnings per share of common stock from Continuing Operations – Basic	<u>\$ 1.25</u>		<u>\$ 1.07</u>
<b>Diluted Share Information</b>			
Weighted average shares outstanding – Diluted (millions)	<u>230</u>		<u>230</u>
Earnings per share of common stock from Continuing Operations – Diluted	<u>\$ 1.24</u>		<u>\$ 1.07</u>

The accompanying Notes are an integral part of this Unaudited Pro Forma Condensed Consolidated Statement of Income from Continuing Operations.

**PEPCO HOLDINGS, INC. AND SUBSIDIARIES**  
**UNAUDITED PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF INCOME**  
**FROM CONTINUING OPERATIONS**  
**FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>As Filed</u>	<u>Pro Forma Adjustments</u>	<u>Pro Forma, as Adjusted</u>
	<i>(millions of dollars, except per share data)</i>		
<b>Operating Revenue</b>			
Power Delivery	\$4,650	\$ —	\$ 4,650
Pepco Energy Services	1,269	—	1,269
Other	32	(48)(a)(b)	(16)(c)
Total Operating Revenue	<u>5,951</u>	<u>(48)</u>	<u>5,903</u>
<b>Operating Expenses</b>			
Fuel and purchased energy	3,453	—	3,453
Other services cost of sales	172	—	172
Other operation and maintenance	914	(6)(d)	908
Depreciation and amortization	426	—	426
Other taxes	451	—	451
Gains on early terminations of finance leases held in trust	(39)	39(e)	—
Deferred electric service costs	(63)	—	(63)
Total Operating Expenses	<u>5,314</u>	<u>33</u>	<u>5,347</u>
<b>Operating Income</b>	<u>637</u>	<u>(81)</u>	<u>556</u>
<b>Other Income (Expenses)</b>			
Interest and dividend income	1	—	1
Interest expense	(254)	13(f)	(241)
Loss from equity investments	(3)	—	(3)
Impairment losses	(5)	—	(5)
Other income	33	—	33
Total Other Expenses	<u>(228)</u>	<u>13</u>	<u>(215)</u>
<b>Income from Continuing Operations Before Income Tax Expense</b>	409	(68)	341
<b>Income Tax Expense Related to Continuing Operations</b>	149	(34)(g)	115
<b>Net Income from Continuing Operations</b>	<u>\$ 260</u>	<u>\$ (34)</u>	<u>\$ 226</u>
<b>Basic Share Information</b>			
Weighted average shares outstanding – Basic (millions)	<u>226</u>		<u>226</u>
Earnings per share of common stock from Continuing Operations – Basic	<u>\$ 1.15</u>		<u>\$ 1.00</u>
<b>Diluted Share Information</b>			
Weighted average shares outstanding – Diluted (millions)	<u>226</u>		<u>226</u>
Earnings per share of common stock from Continuing Operations – Diluted	<u>\$ 1.15</u>		<u>\$ 1.00</u>

The accompanying Notes are an integral part of this Unaudited Pro Forma Condensed Consolidated Statement of Income from Continuing Operations.

**PEPCO HOLDINGS, INC. AND SUBSIDIARIES**  
**UNAUDITED PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF INCOME**  
**FROM CONTINUING OPERATIONS**  
**FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>As Filed</u>	<u>Pro Forma Adjustments</u>	<u>Pro Forma, as Adjusted</u>
	<i>(millions of dollars, except per share data)</i>		
<b>Operating Revenue</b>			
Power Delivery	\$5,114	\$ —	\$ 5,114
Pepco Energy Services	1,884	—	1,884
Other	42	(53)(a)(b)	(11)(c)
Total Operating Revenue	<u>7,040</u>	<u>(53)</u>	<u>6,987</u>
<b>Operating Expenses</b>			
Fuel and purchased energy	4,632	—	4,632
Other services cost of sales	140	—	140
Other operation and maintenance	884	(2)(d)	882
Restructuring charge	30	—	30
Depreciation and amortization	393	—	393
Other taxes	434	—	434
Deferred electric service costs	(108)	—	(108)
Effect of Pepco divestiture-related claims	11	—	11
Total Operating Expenses	<u>6,416</u>	<u>(2)</u>	<u>6,414</u>
<b>Operating Income</b>	<u>624</u>	<u>(51)</u>	<u>573</u>
<b>Other Income (Expenses)</b>			
Interest expense	(306)	14(f)	(292)
Loss from equity investments	(1)	—	(1)
Loss on extinguishment of debt	(189)	—	(189)
Other income	22	—	22
Total Other Expenses	<u>(474)</u>	<u>14</u>	<u>(460)</u>
<b>Income from Continuing Operations Before Income Tax Expense</b>	<u>150</u>	<u>(37)</u>	<u>113</u>
<b>Income Tax Expense (Benefit) Related to Continuing Operations</b>	<u>11</u>	<u>(13)(g)</u>	<u>(2)</u>
<b>Net Income from Continuing Operations</b>	<u>\$ 139</u>	<u>\$ (24)</u>	<u>\$ 115</u>
<b>Basic Share Information</b>			
Weighted average shares outstanding – Basic (millions)	<u>224</u>		<u>224</u>
Earnings per share of common stock from Continuing Operations – Basic	<u>\$ 0.62</u>		<u>\$ 0.51</u>
<b>Diluted Share Information</b>			
Weighted average shares outstanding – Diluted (millions)	<u>224</u>		<u>224</u>
Earnings per share of common stock from Continuing Operations – Diluted	<u>\$ 0.62</u>		<u>\$ 0.51</u>

The accompanying Notes are an integral part of this Unaudited Pro Forma Condensed Consolidated Statement of Income from Continuing Operations.

**PEPCO HOLDINGS, INC. AND SUBSIDIARIES**  
**UNAUDITED PRO FORMA CONDENSED CONSOLIDATED BALANCE SHEET**  
**AS OF MARCH 31, 2013**

	<u>As Filed</u>	<u>Pro Forma Adjustments</u> <i>(millions of dollars)</i>	<u>Pro Forma, as Adjusted</u>
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	\$ 125	\$ —	\$ 125
Restricted cash equivalents	10	—	10
Accounts receivable, net	838	—	838
Inventories	153	—	153
Prepayment of income taxes	50	—	50
Deferred income tax assets, net	36	—	36
Income taxes receivable	243	1(h)	244
Prepaid expenses and other	66	—	66
Total Current Assets	<u>1,521</u>	<u>1</u>	<u>1,522</u>
<b>INVESTMENTS AND OTHER ASSETS</b>			
Goodwill	1,407	—	1,407
Regulatory assets	2,566	—	2,566
Investment in finance leases held in trust	869	(869)(h)	—
Income taxes receivable	51	—	51
Restricted cash equivalents	16	—	16
Assets and accrued interest related to uncertain tax positions	9	—	9
Derivative assets	8	—	8
Other	174	—	174
Total Investments and Other Assets	<u>5,100</u>	<u>(869)</u>	<u>4,231</u>
<b>PROPERTY, PLANT AND EQUIPMENT</b>			
Property, plant and equipment	13,830	—	13,830
Accumulated depreciation	(4,796)	—	(4,796)
Net Property, Plant and Equipment	<u>9,034</u>	<u>—</u>	<u>9,034</u>
<b>TOTAL ASSETS</b>	<u>\$15,655</u>	<u>\$ (868)</u>	<u>\$ 14,787</u>

The accompanying Notes are an integral part of this Unaudited Pro Forma Condensed Consolidated Balance Sheet.

**PEPCO HOLDINGS, INC. AND SUBSIDIARIES**  
**UNAUDITED PRO FORMA CONDENSED CONSOLIDATED BALANCE SHEET**  
**AS OF MARCH 31, 2013**

	<u>As Filed</u>	<u>Pro Forma Adjustments</u> <i>(millions of dollars)</i>	<u>Pro Forma, as Adjusted</u>
<b>LIABILITIES AND EQUITY</b>			
<b>CURRENT LIABILITIES</b>			
Short-term debt	\$ 1,041	\$ (873)(h)	\$ 168
Current portion of long-term debt and project funding	569	—	569
Accounts payable and accrued liabilities	486	7(h)	493
Capital lease obligations due within one year	9	—	9
Taxes accrued	50	—	50
Interest accrued	84	—	84
Liabilities and accrued interest related to uncertain tax positions	379	—	379
Derivative liabilities	2	—	2
Other	256	—	256
Liabilities associated with assets held for sale	7	—	7
Total Current Liabilities	<u>2,883</u>	<u>(866)</u>	<u>2,017</u>
<b>DEFERRED CREDITS</b>			
Regulatory liabilities	492	—	492
Deferred income tax liabilities, net	2,685	—	2,685
Investment tax credits	20	—	20
Pension benefit obligation	388	—	388
Other postretirement benefit obligations	451	—	451
Liabilities and accrued interest related to uncertain tax positions	27	—	27
Derivative liabilities	11	—	11
Other	195	—	195
Liabilities associated with assets held for sale	1	—	1
Total Deferred Credits	<u>4,270</u>	<u>—</u>	<u>4,270</u>
<b>LONG-TERM LIABILITIES</b>			
Long-term debt	3,898	—	3,898
Transition bonds issued by ACE Funding	246	—	246
Long-term project funding	11	—	11
Capital lease obligations	69	—	69
Total Long-Term Liabilities	<u>4,224</u>	<u>—</u>	<u>4,224</u>
<b>EQUITY</b>			
Total Stockholders' Equity	4,278	(2)(h)	4,276
<b>TOTAL LIABILITIES AND EQUITY</b>	<u>\$15,655</u>	<u>\$ (868)</u>	<u>\$ 14,787</u>

The accompanying Notes are an integral part of this Unaudited Pro Forma Condensed Consolidated Balance Sheet.

**Notes to the Unaudited Pro Forma Condensed Consolidated Balance Sheet and Statements of (Loss) Income  
from Continuing Operations**

**(1) Basis of Presentation**

On July 26, 2013, PHI completed the early terminations of its cross-border energy lease investments. The unaudited pro forma condensed consolidated balance sheet as of March 31, 2013, illustrates the estimated effects solely of the early terminations of PHI's remaining cross-border energy lease investments with its lessees, and the use of the proceeds to repay short-term debt of PHI, as if the transactions had occurred on March 31, 2013. The unaudited pro forma condensed consolidated statements of (loss) income from continuing operations for the three months ended March 31, 2013 and 2012, and for the years ended December 31, 2012, 2011 and 2010, illustrate the estimated effects of the early terminations and the use of the proceeds as if the transactions had occurred at the beginning of the earliest period presented. The pro forma adjustments and assumptions are described in Note 2 below.

**(2) Pro Forma Adjustments and Assumptions**

- a) Revenues associated with the cross-border energy lease investments.
- b) Charges to record the reduction of the carrying value of the cross-border energy lease investments (\$373 million for the three months ended March 31, 2013, \$7 million for the year ended December 31, 2011, and \$2 million for the year ended December 31, 2010).
- c) Includes intercompany eliminations reported in the Corporate and Other operating segment that reduce the operating revenue of the Power Delivery and Pepco Energy Services operating segments.
- d) Direct operating expenses (primarily third party legal and consulting fees) solely attributable to the cross-border energy lease investments.
- e) Gains on early terminations of cross-border energy lease investments, representing the excess of the net cash proceeds on termination over the carrying value of the terminated leases.
- f) Interest expense associated with cross-border energy lease investments, reflecting both short-term and long-term interest rates, and the reduction in interest expense from the assumed repayment of short-term debt with the proceeds from the early termination of the cross-border energy lease investments.
- g) Income tax expense (calculated using a composite federal and state income tax rate of approximately 35%), adjusted for permanent tax differences and interest on uncertain and effectively settled tax positions associated with the cross-border energy lease investments. During the quarter ended March 31, 2013, PHI recorded income tax expense of \$101 million for a valuation allowance against deferred tax assets related to prior investments in aircraft and aircraft equipment, railcars and other assets. These deferred tax assets are included in PHI's Other Non-Regulated segment, but are not a part of the cross-border energy lease operations.
- h) Reflects the early terminations of the remaining cross-border energy lease investments, the assumed repayment of short-term debt with the proceeds from these early terminations, and the related change in Stockholders' Equity associated with the loss on the transactions. The change in Stockholders' Equity is detailed as follows (in millions):

Proceeds from early terminations	\$ 873
Less: Net carrying value of cross-border energy lease investments	869
Transaction costs	7
Pre-tax loss from early terminations	(3)
Income tax benefit	1
Loss from early terminations, after tax	\$ (2)