MIRANT CORP
Form 10-Q
August 09, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended June 30, 2007

Or

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

For the Transition Period from to

Mirant Corporation

(Exact name of registrant as specified in its charter)

Delaware	**001-16107**	**20-3538156**
(State or other jurisdiction of Incorporation or Organization)	(Commission File Number)	(I.R.S. Employer Identification No.)

1155 Perimeter Center West, Suite 100, **Atlanta, Georgia**	**30338**
(Address of Principal Executive Offices)	(Zip Code)
(678) 579-5000	
(Registrant s Telephone Number, Including Area Code)	

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

x Large Accelerated Filer o Accelerated Filer o Non-accelerated Filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). o Yes x No

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. x Yes o No

The number of shares outstanding of the Registrant s Common Stock, par value $0.01 per share, at July 31, 2007, was 255,959,032.

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Glossary of Certain Defined Terms

ACO Administrative Compliance Order.

APB Accounting Principles Board.

APB No. 22 APB Opinion No. 22, *Disclosure of Accounting Policies.*

APSA Asset Purchase and Sale Agreement dated June 7, 2000, between the Company and Pepco.

Back-to-Back Agreement Contractual agreement with Pepco with respect to certain PPAs.

Bankruptcy Code United States Bankruptcy Code.

Bankruptcy Court United States Bankruptcy Court for the Northern District of Texas, Fort Worth Division.

Baseload Generating Units Units that satisfy minimum baseload requirements of the system and produce electricity at an essentially constant rate and run continuously.

CAISO California Independent System Operator.

Cal PX California Power Exchange.

CFTC Commodity Futures Trading Commission.

Clean Air Act Federal Clean Air Act.

Clean Water Act Federal Water Pollution Control Act.

CO Carbon monoxide.

Company Old Mirant prior to January 3, 2006, and New Mirant on or after January 3, 2006.

CPUC California Public Utilities Commission.

DOE United States Department of Energy.

DOJ United States Department of Justice.

DWR California Department of Water Resources.

EBITDA Earnings before interest, taxes, depreciation and amortization.

EITF The Emerging Issues Task Force formed by the Financial Accounting Standards Board.

EITF 02-3 EITF Issue No. 02-3, *Issues Involved in Accounting for Derivative Contracts Held for Trading Purposes and Contracts Involved in Energy Trading and Risk Management Activities.*

EITF 06-3 EITF Issue No. 06-3, *How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That Is, Gross versus Net Presentation).*

EOB California Electricity Oversight Board.

EPA United States Environmental Protection Agency.

EPS Earnings per share.

FASB Financial Accounting Standards Board.

FERC Federal Energy Regulatory Commission.

FIN FASB Interpretation.

FIN 39 FIN No. 39, *Offsetting of Amounts Returned to Certain Contracts.*

FIN 48 FIN No. 48, *Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109.*

FSP FASB Staff Position.

FSP FIN 39-1 FSP FIN No. 39-1, *Modification to FASB Interpretation No. 39 (FIN 39).*

FSP FIN 48-1 FSP FIN No. 48-1, *Definition of Settlement in FASB Interpretation No. 48 (FIN 48).*

GAAP Generally accepted accounting principles in the United States.

Gross Margin Operating revenue less cost of fuel, electricity and other products.

Hudson Valley Gas Hudson Valley Gas Corporation.

Intermediate Generating Units Units that meet system requirements that are greater than baseload and less than peaking.

LIBOR London InterBank Offered Rate.

MAAC Mid-Atlantic Area Council.

MC Asset Recovery MC Asset Recovery, LLC.

Mirant Old Mirant prior to January 3, 2006, and New Mirant on or after January 3, 2006.

Mirant Americas Mirant Americas, Inc.

Mirant Americas Energy Marketing Mirant Americas Energy Marketing, LP.

Mirant Americas Generation Mirant Americas Generation, LLC.

Mirant Asia-Pacific Mirant Asia-Pacific Limited.

Mirant Bowline Mirant Bowline, LLC.

Mirant Chalk Point Mirant Chalk Point, LLC.

Mirant Energy Trading Mirant Energy Trading, LLC.

Mirant Lovett Mirant Lovett, LLC.

Mirant Mid-Atlantic Mirant Mid-Atlantic, LLC.

Mirant New York Mirant New York, LLC (formerly, Mirant New York, Inc.).

Mirant North America Mirant North America, LLC.

Mirant NY-Gen Mirant NY-Gen, LLC.

Mirant Potomac River Mirant Potomac River, LLC.

Mirant Power Purchase Mirant Power Purchase, LLC.

Mirant Sual Mirant Sual Corporation.

Mirant Trinidad Investments Mirant Trinidad Investments, LLC.

Mirant Zeeland Mirant Zeeland, LLC.

MW Megawatt.

MWh Megawatt hour.

NAAQS National ambient air quality standards.

New Mirant Mirant Corporation on or after January 3, 2006.

NOL Net operating loss.

NOx Nitrogen oxides.

NPC National Power Corporation.

NSR New source review.

NYISO Independent System Operator of New York.

NYSDEC New York State Department of Environmental Conservation.

Old Mirant MC 2005, LLC, known as Mirant Corporation prior to January 3, 2006.

Orange and Rockland Orange and Rockland Utilities, Inc.

Panda Panda-Brandywine, LP.

Peaking Generating Units Units used to meet demand requirements during the periods of greatest or peak load on the system.

Pepco Potomac Electric Power Company.

PG&E Pacific Gas & Electric Company.

PJM Pennsylvania-New Jersey-Maryland Interconnection, LLC.

Plan Plan of Reorganization effective on January 3, 2006, for Mirant and most of its subsidiaries that were debtors in the bankruptcy proceedings.

PM10 Particulate matter that is 10 microns or less in size.

PPA Power purchase agreement.

Reserve Margin Excess capacity over peak demand.

RMR Reliability-must-run.

RTO Regional transmission organization.

SAB SEC Staff Accounting Bulletin.

SAB No. 107 SAB No. 107, *Share-Based Payment.*

SEC U.S. Securities and Exchange Commission.

Securities Act Securities Act of 1933, as amended.

SFAS Statement of Financial Accounting Standards.

SFAS No. 5 SFAS No. 5, *Accounting for Contingencies.*

SFAS No. 109 SFAS No. 109, *Accounting for Income Taxes*.

SFAS No. 123R SFAS No. 123R, *Share-Based Payment.*

SFAS No. 144 SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets.*

SFAS No. 155 SFAS No. 155, *Accounting for Certain Hybrid Financial Instruments an amendment of FASB Statements No. 133 and 140.*

SFAS No. 157 SFAS No. 157, *Fair Value Measurements.*

SFAS No. 159 SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115.*

Shady Hills Shady Hills Power Company, L.L.C.

SO2 Sulfur dioxide.

VIE Variable interest entity.

Virginia DEQ Virginia Department of Environmental Quality.

West Georgia West Georgia Generating Company, L.L.C.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

The information presented in this Form 10-Q includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, in addition to historical information. These statements involve known and unknown risks and uncertainties and relate to future events, our future financial performance or our projected business results. In some cases, one can identify forward-looking statements by terminology such as may, will, should, expect, plan, anticipate, estimate, predict, t or continue or the negative of these terms or other comparable terminology.

Forward-looking statements are only predictions. Actual events or results may differ materially from any forward-looking statement as a result of various factors, which include:

- legislative and regulatory initiatives regarding deregulation, regulation or restructuring of the industry of generating, transmitting and distributing electricity; changes in state, federal and other regulations (including rate and other regulations); changes in, or changes in the application of, environmental and other laws and regulations to which we and our subsidiaries and affiliates are or could become subject;

- failure of our assets to perform as expected, including outages for unscheduled maintenance or repair;

- changes in market conditions, including developments in the supply, demand, volume and pricing of electricity and other commodities in the energy markets, or the extent and timing of the entry of additional competition in our markets or those of our subsidiaries and affiliates;

- increased margin requirements, market volatility or other market conditions that could increase our obligations to post collateral beyond amounts that are expected;

- our inability to access effectively the over-the-counter and exchange-based commodity markets or changes in commodity market liquidity or other commodity market conditions, which may affect our ability to engage in asset management and proprietary trading activities as expected, or result in material extraordinary gains or losses from open positions in fuel oil or other commodities;

- deterioration in the financial condition of our counterparties and the resulting failure to pay amounts owed to us or to perform obligations or services due to us beyond collateral posted;

- hazards customary to the power generation industry and the possibility that we may not have adequate insurance to cover losses as a result of such hazards;

- price mitigation strategies employed by ISOs or RTOs that reduce our revenue and may result in a failure to compensate our generation units adequately for all of their costs;

- changes in the rules used to calculate capacity and energy payments in the markets in which we operate;

- volatility in our gross margin as a result of our accounting for derivative financial instruments used in our asset management activities and volatility in our cash flow from operations resulting from working capital requirements, including collateral, to support our asset management and proprietary trading activities;

- our inability to enter into intermediate and long-term contracts to sell power and procure fuel, including its transportation, on terms and prices acceptable to us;

- the inability of our operating subsidiaries to generate sufficient cash flow to support our operations;
- our ability to borrow additional funds and access capital markets;
- strikes, union activity or labor unrest;
- weather and other natural phenomena, including hurricanes and earthquakes;
- the cost and availability of emissions allowances;
- our ability to obtain adequate supply and delivery of fuel for our facilities;
- curtailment of operations due to transmission constraints;
- environmental regulations that restrict our ability or render it uneconomic to operate our business, including regulations related to the emission of carbon dioxide and other greenhouse gases;
- our inability to complete construction of emissions reduction equipment by January 2010 to meet the requirements of the Maryland Healthy Air Act, which may result in reduced unit operations and reduced cash flows and revenues from operations;
- war, terrorist activities or the occurrence of a catastrophic loss;
- the fact that our Mirant Lovett subsidiary remains in bankruptcy;
- our substantial consolidated indebtedness and the possibility that we or our subsidiaries may incur additional indebtedness in the future;
- restrictions on the ability of our subsidiaries to pay dividends, make distributions or otherwise transfer funds to us, including restrictions on Mirant North America contained in its financing agreements and restrictions on Mirant Mid-Atlantic contained in its leveraged lease documents, which may affect our ability to access the cash flow of those subsidiaries to make debt service and other payments; and
- the disposition of the pending litigation described in this Form 10-Q.

Many of these risks are beyond our ability to control or predict. All forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by cautionary statements contained throughout this report. Because of these risks, uncertainties and assumptions, you should not place undue reliance on these forward-looking statements. Furthermore, forward-looking statements speak only as of the date they are made.

Factors that Could Affect Future Performance

We undertake no obligation to update publicly or revise any forward-looking statements to reflect events or circumstances that may arise after the date of this report.

In addition to the discussion of certain risks in Management s Discussion and Analysis of Results of Operations and Financial Condition and the accompanying Notes to Mirant s unaudited condensed consolidated financial statements, other factors that could affect the Company s future performance (business, financial condition or results of operations and cash flows) are set forth in our Annual Report on Form 10-K for the year ended December 31, 2006.

Certain Terms

As used in this report, we, us, our, the Company and Mirant refer to Mirant Corporation and its subsidiaries, unless the context requires otherwise. Also, as used in this report we, us, our, the Company and Mirant refer to Old Mirant prior to January 3, 2006, and to New Mirant or after January 3, 2006.

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MIRANT CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

	Three Months Ended June 30, 2007	2006	Six Months Ended June 30, 2007	2006
	(in millions, except per share data)			
Operating revenues	**$ 542**	$ 619	**$ 893**	$ 1,576
Cost of fuel, electricity and other products	**229**	251	**504**	565
Gross Margin	**313**	368	**389**	1,011
Operating Expenses:				
Operations and maintenance	**199**	186	**348**	354
Depreciation and amortization	**32**	35	**64**	68
Impairment losses	**175**		**175**	
Gain on sales of assets, net	**(22)**	(6)	**(24)**	(46)
Total operating expenses	**384**	215	**563**	376
Operating Income (Loss)	**(71)**	153	**(174)**	635
Other Expense (Income), net:				
Interest expense	**63**	69	**130**	143
Interest income	**(34)**	(21)	**(53)**	(37)
Other, net	**(1)**	(3)	**(3)**	(3)
Total other expense, net	**28**	45	**74**	103
Income (Loss) From Continuing Operations Before Reorganization Items and Income Taxes	**(99)**	108	**(248)**	532
Reorganization items, net	**(1)**		**(2)**	
Provision (benefit) for income taxes	**(15)**	1	**(30)**	2
Income (Loss) From Continuing Operations	**(83)**	107	**(216)**	530
Income (Loss) From Discontinued Operations, net	**1,339**	(8)	**1,420**	36
Net Income	**$ 1,256**	$ 99	**$ 1,204**	$ 566
Basic EPS:				
Basic EPS from continuing operations	**$ (0.32)**	$ 0.36	**$ (0.84)**	$ 1.77
Basic EPS from discontinued operations	**5.23**	(0.03)	**5.54**	0.12
Basic EPS	**$ 4.91**	$ 0.33	**$ 4.70**	$ 1.89
Diluted EPS:				
Diluted EPS from continuing operations	**$ (0.32)**	$ 0.35	**$ (0.84)**	$ 1.72
Diluted EPS from discontinued operations	**5.23**	(0.03)	**5.54**	0.12
Diluted EPS	**$ 4.91**	$ 0.32	**$ 4.70**	$ 1.84
Average shares outstanding	**256**	300	**256**	300
Effect of dilutive securities		8		8
Average shares outstanding assuming dilution	**256**	308	**256**	308

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

MIRANT CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

	At June 30, 2007 (Unaudited) (in millions)	At December 31, 2006
ASSETS		
Current Assets:		
Cash and cash equivalents	**$ 5,673**	$ 1,139
Funds on deposit	**271**	235
Receivables, net	**321**	381
Price risk management assets	**289**	715
Inventories	**307**	287
Prepaid expenses	**124**	142
Assets held for sale	**1,577**	4,987
Deferred income taxes		110
Total current assets	**8,562**	7,996
Property, Plant and Equipment, net	**2,171**	2,201
Noncurrent Assets:		
Intangible assets, net	**209**	214
Price risk management assets	**45**	100
Deferred income taxes	**206**	660
Prepaid rent	**237**	218
Other	**139**	147
Total noncurrent assets	**836**	1,339
Total assets	**$ 11,569**	$ 11,536
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities:		
Current portion of long-term debt	**$ 96**	$ 142
Accounts payable and accrued liabilities	**465**	443
Price risk management liabilities	**256**	322
Liabilities held for sale	**1,075**	2,218
Deferred income taxes	**206**	49
Accrued taxes and other liabilities	**5**	88
Total current liabilities	**2,103**	3,262
Noncurrent Liabilities:		
Long-term debt	**3,043**	3,133
Price risk management liabilities	**409**	428
Asset retirement obligations	**43**	40
Pension and postretirement obligations	**168**	204
Other	**19**	8
Total noncurrent liabilities	**3,682**	3,813
Liabilities Subject to Compromise	**2**	18
Commitments and Contingencies		
Stockholders Equity:		
Preferred stock, par value $.01 per share, authorized 100,000,000 shares, no shares issued at June 30, 2007 and December 31, 2006		
Common stock, par value $.01 per share, authorized 1.5 billion shares, issued 300,593,097 and 300,200,197 at June 30, 2007 and December 31, 2006, respectively, and outstanding 256,140,047 shares and 256,017,187 at June 30, 2007 and December 31, 2006, respectively	**3**	3
Treasury stock, at cost, 44,453,050 shares and 44,183,010 shares at June 30, 2007 and December 31, 2006, respectively	**(1,271)**	(1,261)
Additional paid-in capital	**11,336**	11,317
Accumulated deficit	**(4,277)**	(5,598)
Accumulated other comprehensive income	**(9)**	(18)
Total stockholders equity	**5,782**	4,443
Total liabilities and stockholders equity	**$ 11,569**	$ 11,536

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

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MIRANT CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY
(UNAUDITED)

	Common Stock (in millions)	Treasury Stock	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income
Balance, December 31, 2006	$ 3	$ (1,261)	$ 11,317	$ (5,598)	$ (18)
Net income				1,204	
Stock repurchases		(10)			
Stock-based compensation			14		
Exercises of stock options and warrants			5		
Adoption of FIN 48				117	
Other comprehensive income					9
Balance, June 30, 2007	**$ 3**	**$ (1,271)**	**$ 11,336**	**$ (4,277)**	**$ (9)**

MIRANT CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(UNAUDITED)

	Six Months Ended June 30, 2007 (in millions)	2006
Net Income	**$ 1,204**	$ 566
Other comprehensive income, net of tax		
Cumulative translation adjustment	**4**	3
Unrealized gains on available-for-sale securities		14
Settlement of pension and other postretirement benefits	**5**	
Other comprehensive income, net of tax	**9**	17
Total Comprehensive Income	**$ 1,213**	$ 583

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

MIRANT CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	Six Months Ended June 30, 2007 (in millions)	2006
Cash Flows from Operating Activities:		
Net income	**$ 1,204**	$ 566
Income from discontinued operations	**1,420**	36
Income (loss) from continuing operations	**(216)**	530
Adjustments to reconcile net income (loss) from continuing operations to net cash provided by (used in) operating activities:		
Depreciation and amortization	**69**	73
Impairment losses	**175**	
Gain on sales of assets and investments, net	**(24)**	(49)
Price risk management activities, net	**396**	(410)
Deferred income taxes	**(49)**	
Stock-based compensation	**14**	8
Other postretirement benefits curtailment gain	**(32)**	
Other, net	**2**	(1)
Changes in operating assets and liabilities:		
Receivables, net	**119**	247
Funds on deposit	**(36)**	260
Inventories	**(20)**	(99)
Other assets	**(2)**	6
Accounts payable and accrued liabilities	**(9)**	(213)
Settlement of claims payable	**(28)**	(757)
Accrued taxes and other liabilities	**(10)**	30
Total adjustments	**565**	(905)
Net cash provided by (used in) operating activities of continuing operations	**349**	(375)
Net cash provided by operating activities of discontinued operations	**166**	261
Net cash provided by (used in) operating activities	**515**	(114)
Cash Flows from Investing Activities:		
Capital expenditures	**(178)**	(64)
Proceeds from the sales of assets and other investments	**34**	64
Other	**4**	
Net cash used in investing activities of continuing operations	**(140)**	
Net cash provided by (used in) investing activities of discontinued operations	**4,782**	(74)
Net cash provided by (used in) investing activities	**4,642**	(74)
Cash Flows from Financing Activities:		
Proceeds from issuance of long-term debt		2,015
Repayment of long-term debt	**(136)**	(469)
Proceeds from exercise of stock options and warrants	**5**	
Settlement of debt under the Plan		(990)
Debt issuance costs		(51)
Stock repurchases	**(10)**	
Net cash provided by (used in) financing activities of continuing operations	**(141)**	505
Net cash used in financing activities of discontinued operations	**(668)**	(71)
Net cash provided by (used in) financing activities	**(809)**	434
Effect of Exchange Rate Changes on Cash and Cash Equivalents	**1**	(1)
Net Increase in Cash and Cash Equivalents	**4,349**	245
Cash and Cash Equivalents, beginning of period	**1,139**	1,068
Plus: Cash and Cash Equivalents in Assets Held for Sale, beginning of period	**247**	483
Less: Cash and Cash Equivalents in Assets Held for Sale, end of period	**62**	603
Cash and Cash Equivalents, end of period	**$ 5,673**	$ 1,193
Supplemental Cash Flow Disclosures:		
Cash paid for interest, net of amounts capitalized	**$ 183**	$ 169
Cash paid for income taxes	**$ 31**	$ 43
Cash paid for claims and professional fees from bankruptcy	**$ 33**	$ 1,845

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

MIRANT CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

A. Description of Business

Mirant s continuing operations generate revenues primarily through the production of electricity in the United States. Those operations consist of the ownership, long-term lease and operation of 10,301 MW of power generation facilities located in markets in the Mid-Atlantic and Northeast regions of the United States and in California, and energy trading and marketing operations in Atlanta, Georgia.

As of June 30, 2007, the Company owned or leased 11,351 MW of electric generating capacity comprised of its continuing and Caribbean businesses. In the third quarter of 2006, Mirant commenced separate auction processes to sell its Philippine (2,203 MW) and Caribbean (1,050 MW) businesses and six of its U.S. natural gas-fired plants totaling 3,619 MW, including the Zeeland (903 MW), West Georgia (613 MW), Shady Hills (469 MW), Sugar Creek (561 MW), Bosque (546 MW) and Apex (527 MW) facilities. On May 1, 2007, the Company completed the sale of the six U.S. natural gas-fired plants. On June 22, 2007, the Company completed the sale of its Philippine business. On August 8, 2007, the Company completed the sale of its Caribbean business. In addition, on May 7, 2007, the Company completed the sale of Mirant NY-Gen (121 MW). See Note C for additional information regarding the accounting for these businesses and assets as discontinued operations.

On April 9, 2007, Mirant announced that its Board of Directors had decided to explore strategic alternatives to enhance stockholder value. In light of the status of the disposition program, the Board of Directors will consider in the exploration process whether the interests of stockholders would be best served by returning excess cash from the sale proceeds to stockholders, with the Company continuing to operate its retained businesses or, alternatively, whether greater stockholder value would be achieved by entering into a transaction with another company, including a sale of the Company in its entirety. The Company does not expect to consider making an acquisition as part of this exploration process.

B. Accounting and Reporting Policies

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of Mirant and its wholly-owned subsidiaries have been prepared in accordance with GAAP for interim financial information and with the instructions for Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company s Annual Report on Form 10-K for the year ended December 31, 2006.

The accompanying unaudited condensed consolidated financial statements include the accounts of Mirant and its wholly-owned and controlled majority-owned subsidiaries as well as VIEs in which Mirant has an interest and is the primary beneficiary. The financial statements have been prepared from records maintained by Mirant and its subsidiaries in their respective countries of operation. All significant intercompany accounts and transactions have been eliminated in consolidation. Investments in minority-owned companies in which Mirant exercises significant influence over operating and financial policies are accounted for using the equity method of accounting. Jointly owned affiliates which Mirant does not control, as well as interests in VIEs in which Mirant is not the primary beneficiary, also are accounted for using the equity method of accounting.

All amounts are presented in U.S. dollars unless otherwise noted. In accordance with SFAS No. 144, the results of operations of the Company s businesses and assets to be disposed of have been reclassified to discontinued operations, and the associated assets and liabilities have been reclassified to assets and liabilities held for sale for all periods presented. In addition, the accompanying unaudited condensed consolidated statements of cash flows present the cash flows from discontinued operations in each of the three major categories (operating, investing and financing activities). The unaudited condensed consolidated statement of cash flows for the six months ended June 30, 2006, was revised to conform to this presentation.

Certain prior period amounts have been reclassified to conform to the current period financial statement presentation.

Curtailment of Other Postretirement Benefits

During the fourth quarter of 2006, Mirant amended its postretirement benefit plan covering non-union employees to eliminate all employer-provided subsidies through a gradual phase-out by 2011. This action occurred after the Company s September 30 annual measurement date for actuarial purposes used for measuring its December 31, 2006, obligation. The Company recognized a curtailment gain of approximately $32 million in the first quarter of 2007. This gain is included as a reduction of operations and maintenance expense on the unaudited condensed consolidated statement of operations for the six months ended June 30, 2007.

Recently Adopted Accounting Standards

On July 13, 2006, the FASB issued FIN 48, which clarifies the accounting for uncertainty in income taxes recognized in an enterprise s financial statements in accordance with SFAS No. 109. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return.

On January 1, 2007, the Company adopted the provisions of FIN 48 for all uncertain tax positions. Only tax positions that met the more-likely-than-not recognition threshold at the effective date were recognized or will continue to be recognized. The total effect of adopting FIN 48 was an increase in stockholders equity of $117 million. See Note J for additional information on FIN 48.

On May 2, 2007, the FASB issued FSP FIN 48-1, which amended FIN 48 to provide guidance on how an enterprise should determine whether a tax position is effectively settled for the purpose of recognizing previously unrecognized tax benefits. In determining whether a tax position is effectively settled, companies are required to make the assessment on a position-by-position basis; however, a company could conclude that all positions in a particular tax year are effectively settled. The Company s initial adoption of FIN 48 on January 1, 2007, was consistent with the provisions of FSP FIN 48-1.

In February 2006, the FASB issued SFAS No. 155, which allows fair value measurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation. SFAS No. 155 is effective for all financial instruments acquired, issued or subject to a re-measurement event beginning in the first fiscal year after September 15, 2006. At the date of adoption, any difference between the total carrying amount of the existing bifurcated hybrid financial instrument and the fair value of the combined hybrid financial instrument will be recognized as a cumulative effect adjustment to beginning retained earnings. The Company adopted

SFAS No. 155 on January 1, 2007. The adoption of SFAS No. 155 did not affect the Company s statements of operations, financial position or cash flows.

On June 28, 2006, the FASB ratified the EITF s consensus reached on EITF 06-3, which relates to the income statement presentation of taxes collected from customers and remitted to government authorities. The Task Force affirmed as a consensus on this issue that the presentation of taxes on either a gross basis or a net basis within the scope of EITF 06-3 is an accounting policy decision that should be disclosed pursuant to APB No. 22. A company should disclose the amount of those taxes that is recognized on a gross basis in interim and annual financial statements for each period for which an income statement is presented if those amounts are significant. The Company adopted EITF 06-3 on January 1, 2007. While the amounts are not material, the Company s policy is to present such taxes on a net basis in the consolidated statements of operations.

New Accounting Standards Not Yet Adopted

On September 15, 2006, the FASB issued SFAS No. 157, which establishes a framework for measuring fair value under GAAP and expands disclosure about fair value measurement. SFAS No. 157 requires companies to disclose the fair value of their financial instruments according to a fair value hierarchy (i.e., levels 1, 2, and 3, as defined). Additionally, companies are required to provide enhanced disclosure regarding fair value measurements in the level 3 category, including a reconciliation of the beginning and ending balances separately for each major category of assets and liabilities accounted for at fair value. SFAS No. 157 is effective at the beginning of the first fiscal year after November 15, 2007. The Company will adopt SFAS No. 157 on January 1, 2008, and as of that date, evaluate the fair value of its assets and liabilities according to the hierarchy established by the FASB and present the required disclosures. It is also expected that the adoption of SFAS No. 157 will affect the measurement of certain liabilities by incorporating Mirant s own credit standing and the accounting for inception gains and losses currently being deferred under EITF 02-3. The net deferred inception gains and losses at June 30, 2007, were not material. The Company has not yet determined the potential effect of SFAS No. 157 on its statements of operations, financial position or cash flows.

On February 15, 2007, the FASB issued SFAS No. 159, which permits an entity to measure many financial instruments and certain other items at fair value by electing a fair value option. Once elected, the fair value option may be applied on an instrument by instrument basis, is irrevocable and is applied only to entire instruments. SFAS No. 159 also requires companies with trading and available-for-sale securities to report the unrealized gains and losses for which the fair value option has been elected within earnings for the period presented. SFAS No. 159 is effective at the beginning of the first fiscal year after November 15, 2007. The Company will adopt SFAS No. 159 on January 1, 2008. The Company does not expect the adoption of SFAS No. 159 to have a material effect on its statements of operations, financial position or cash flows.

On April 30, 2007, the FASB issued FSP FIN 39-1, which amended FIN 39, to indicate that the following fair value amounts could be offset against each other if certain conditions of FIN 39 are otherwise met: (a) those recognized for derivative instruments executed with the same counterparty under a master netting arrangement and (b) those recognized for the right to reclaim cash collateral (a receivable) or the obligation to return cash collateral (a payable) arising from the same master netting arrangement as the derivative instruments. In addition, a reporting entity is not precluded from offsetting the derivative instruments if it determines that the amount recognized upon payment or receipt of cash collateral is not a fair value amount. FSP FIN 39-1 is effective at the beginning of the first fiscal year after November 15, 2007. The Company will adopt FSP FIN 39-1 on January 1, 2008. The Company has not yet determined the potential effect of FSP FIN 39-1 on its statements of financial position.

C. Dispositions

Assets and Liabilities Held for Sale

Assets and liabilities held for sale include discontinued operations and other assets that the Company expects to dispose of in the subsequent year. In the third quarter of 2006, Mirant commenced auction processes to sell its Philippine (2,203 MW) and Caribbean (1,050 MW) businesses and six U.S. natural gas-fired intermediate and peaking plants totaling 3,619 MW, comprised of Zeeland (903 MW), West Georgia (613 MW), Shady Hills (469 MW), Sugar Creek (561 MW), Bosque (546 MW) and Apex (527 MW). In addition, the Company sought to sell Mirant NY-Gen (121 MW). At December 31, 2006, assets and liabilities held for sale consisted of the businesses and assets above and certain ancillary equipment included in the sale of the six U.S. natural gas-fired plants. At June 30, 2007, assets and liabilities held for sale consisted of the Caribbean business.

On December 11, 2006, Mirant entered into a definitive purchase and sale agreement with a consortium of The Tokyo Electric Power Company, Incorporated and Marubeni Corporation for the sale of its Philippine business. The sale was completed on June 22, 2007, and the Company recognized a pre-tax gain of $2.010 billion, which is recorded in discontinued operations. The net proceeds to Mirant after transaction costs and the repayment of $642 million of debt were $3.216 billion.

On May 1, 2007, Mirant completed the sale of six U.S. natural gas-fired plants to Broadway Generating Company, LLC (formerly LS Power Acquisition Co. I), a member of the LS Power Group. The net proceeds to Mirant from the sale, after transaction costs and retiring $83 million of project-related debt, were $1.307 billion. In accordance with Mirant North America s debt covenants, approximately $524 million of the proceeds from the sale of the Zeeland and Bosque plants are being reinvested in the business of Mirant North America.

The Company completed the sale of Mirant NY-Gen to Alliance Energy Renewables, LLC on May 7, 2007, and recognized a gain of $8 million, which is recorded in discontinued operations.

On April 18, 2007, Mirant executed a definitive purchase and sale agreement with a subsidiary of Marubeni Corporation for the sale of its Caribbean business for a purchase price of $1.071 billion, which includes related debt of approximately $348 million, power purchase obligations of approximately $152 million and estimated working capital at closing. The sale was completed on August 8, 2007. The net proceeds to Mirant after transaction costs were $553 million and the Company expects to recognize a gain of approximately $58 million in the third quarter of 2007.

The table below presents the components of the balance sheet accounts classified as assets and liabilities held for sale (in millions):

	At June 30, 2007	At December 31, 2006
Current Assets:		
Cash and cash equivalents	$ 62	$ 247
Funds on deposit		126
Other current assets	314	520
Total current assets	376	893
Property, Plant and Equipment, net	897	3,489
Noncurrent Assets:		
Investments	161	224
Other noncurrent assets	143	381
Total noncurrent assets	304	605
Total Assets	$ 1,577	$ 4,987
Current Liabilities:		
Short-term debt	$ 15	$ 25
Current portion of long-term debt	35	166
Other current liabilities	164	245
Total current liabilities	214	436
Noncurrent Liabilities:		
Long-term debt	483	1,149
Other noncurrent liabilities	378	633
Total noncurrent liabilities	861	1,782
Total Liabilities	$ 1,075	$ 2,218

The Company recognized $9 million of other comprehensive income, net of tax in the six months ended June 30, 2007, related to the sale of the Philippine business. Of this amount, $5 million was related to a pension liability that was settled as part of the sale and $4 million was related to a cumulative translation adjustment.

Long-Term Debt

Long-term debt recorded in liabilities held for sale is as follows (in millions):

	At June 30, 2007	At December 31, 2006	Interest Rate	Secured/ Unsecured
Long-term debt:				
Mirant North America:				
Mirant Zeeland capital lease, due 2007 to 2012	$	$ 11	9.5%	
Other:				
Mirant Sweden International AB (publ), due 2007 to 2012		700	LIBOR + 2.25%	Secured
Jamaica Public Service Company Limited, due 2007 to 2030	52	55	7.00% to LIBOR + 7.5%	Secured
Jamaica Public Service Company Limited, VIEs, due 2007 to 2020	109	114	30-yr U.S. Treasury Bond Yield + 3% to 13.58%	Secured
Jamaica Public Service Company Limited, due 2016	180	180	11%	Unsecured
Mirant Grand Bahama Limited, due 2007 to 2011	9	10	LIBOR + 1.25%	Secured
Grand Bahama Power Company Limited, due 2007 to 2014	57	50	5.625% to Bahamian Prime + 1.125%	Unsecured
Mirant Trinidad Investments LLC, due 2016	100	100	7.017%	Secured
Mirant Curacao Investments, Ltd, due 2007	11	12	10.15%	Secured
West Georgia Generating Company, due 2007 to 2011		83	LIBOR + 3.125%	Secured
Total long-term debt	518	1,315		
Less: current portion of long-term debt	(35)	(166)		
Total long-term debt, excluding current portion	$ 483	$ 1,149		

Discontinued Operations

The Company has reclassified amounts for prior periods in the financial statements to report separately, as discontinued operations, the revenues and expenses of components of the Company that have been disposed of or have met the required criteria for such classification at June 30, 2007.

For the three and six months ended June 30, 2007, income from discontinued operations included the results of operations of the Caribbean business for the entire period, and the results of operations from the Philippine business, the six U.S. natural gas-fired plants and Mirant NY-Gen through their respective dates of sale. For the three and six months ended June 30, 2006, income from discontinued operations also included the results of operations of the Wichita Falls facility in Texas that was sold on May 4, 2006.

The following summarizes certain financial information of the businesses reported as discontinued operations (in millions):

	Three Months Ended June 30, 2007			
	U.S.	Philippines	Caribbean	Total
Operating revenues	$ 14	$ 99	$ 220	$ 333
Operating expenses:				
Gain on sales of assets	(24)	(2,010)		(2,034)
Other Operating expenses	19	21	176	216
Total operating expenses	(5)	(1,989)	176	(1,818)
Operating income	19	2,088	44	2,151
Other expense, net(1)	2	782	28	812
Net income	$ 17	$ 1,306	$ 16	$ 1,339

	Three Months Ended June 30, 2006			
	U.S.	Philippines	Caribbean	Total
Operating revenues	$ 71	$ 124	$ 215	$ 410
Operating expenses	63	40	183	286
Operating income	8	84	32	124
Other expense, net	1	111	20	132
Net income (loss)	$ 7	$ (27)	$ 12	$ (8)

	Six Months Ended June 30, 2007			
	U.S.	Philippines	Caribbean	Total
Operating revenues	$ 58	$ 200	$ 407	$ 665
Operating expenses:				
Gain on sales of assets	(39)	(2,010)		(2,049)
Other operating expenses	65	66	334	465
Total operating expenses	26	(1,944)	334	(1,584)
Operating income	32	2,144	73	2,249
Other expense, net(1)	4	787	38	829
Net income	$ 28	$ 1,357	$ 35	$ 1,420

	Six Months Ended June 30, 2006			
	U.S.	Philippines	Caribbean	Total
Operating revenues	$ 107	$ 246	$ 403	$ 756
Operating expenses	101	82	342	525
Operating income	6	164	61	231
Other expense, net	4	156	35	195
Net income	$ 2	$ 8	$ 26	$ 36

(1) includes an income tax provision of $710 million due to the reversal of deferred tax assets related to the sale of the Philippine business.

Contingencies

Sual Outages

On July 12, 2006, the Company s Sual generating facility in the Philippines had an unplanned outage of unit 2 due to a failure of the generator. The repairs on unit 2 were completed on March 4, 2007, and the unit returned to operation. On October 23, 2006, unit 1 at the Sual generation facility had an unplanned outage as a result of a failure of the generator. The repairs on unit 1 were completed on June 12, 2007, and the unit returned to operation.

As part of the sale of the Philippine business, Mirant retained the rights to future insurance recoveries related to the Sual outages. At June 30, 2007, the Company had recognized $23 million of insurance recoveries based on signed proofs of loss with the insurer through that date. As of June 30, 2007, the Company had an outstanding receivable of $20 million related to these recoveries. Additional recoveries will be recognized when outstanding claims are resolved.

D. Impairments on Assets Held and Used

In accordance with SFAS No. 144, an asset classified as held and used shall be tested for recoverability whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. An asset impairment charge must be recognized if the sum of the undiscounted expected future cash flows from a long-lived asset is less than the carrying value of that asset. The amount of any impairment charge is calculated as the excess of the carrying value of the asset over its fair value. Fair value is estimated based on the discounted future cash flows from that asset or determined by other valuation techniques.

Background

The Mirant Lovett generation facility in New York has been in ongoing discussions with NYSDEC and the New York State Office of the Attorney General regarding environmental controls. Under the terms of a consent decree dated June 11, 2003 (the 2003 Consent Decree), Mirant Lovett was required to install certain environmental controls on unit 5 of the Lovett facility, convert unit 5 to operate exclusively on natural gas, or discontinue operation of unit 5 by April 30, 2007. The 2003 Consent Decree also required that certain environmental controls be installed on unit 4 by April 30, 2008, or operation of unit 4 had to be discontinued.

On September 19, 2006, Mirant Lovett sought Bankruptcy Court approval to discontinue operation of units 3 and 5 of the Lovett generation facility if an alternative environmental compliance mechanism for environmental controls agreeable to the State of New York was not approved by April 30, 2007. On October 18, 2006, the Bankruptcy Court approved the Company s request. On October 19, 2006, Mirant Lovett submitted notices of its intent to discontinue operations of units 3 and 5 of the Lovett facility on April 30, 2007, to the New York Public Service Commission, NYISO, Orange and Rockland and several other affected transmission and distribution utilities in New York.

On April 30, 2007 and May 7, 2007, Mirant Lovett entered into two tolling agreements with the New York State Office of the Attorney General and the NYSDEC to allow the operation of unit 5 to continue on coal until May 14, 2007, while the parties sought to reach agreement on an amendment to the 2003 Consent Decree. The second tolling agreement also required the temporary suspension of operation of unit 4. Mirant Lovett advised the New York Public Service Commission, the NYISO, Orange and Rockland and other potentially affected transmission and distribution companies in New York of the changes in expected operating status of units 4 and 5.

On May 10, 2007, Mirant Lovett entered into an amendment to the 2003 Consent Decree with the State of New York that switched the deadlines for shutting down units 4 and 5 so that the deadline for compliance by unit 5 was extended until April 30, 2008, and the deadline for unit 4 was shortened. Unit 4 discontinued operation as of May 7, 2007. In addition, unit 3 discontinued operation because it is uneconomic for the unit to continue to run. On May 8, 2007, Mirant New York, Mirant Lovett, Mirant Bowline and Hudson Valley Gas also entered into an agreement (the Tax Assessments Agreement) with the Town of Stony Point, the Town of Haverstraw and the Village of Haverstraw to set the assessed values for the Lovett and Bowline facilities and the pipeline owned by Hudson Valley Gas for 2007 and 2008 for property tax purposes at the values established for 2006 under a settlement agreement entered into by the Mirant entities and those taxing authorities in December 2006. The Bankruptcy Court approved the amendment to the 2003 Consent Decree and the Tax Assessments Agreement on May 10, 2007. The amendment to the 2003 Consent Decree was approved by the United States District Court for the Southern District of New York on May 11, 2007.

In its impairment analysis of the Lovett generation facility in prior periods, the Company assumed multiple scenarios, including the operation of all units of the Lovett facility beyond April 2008. Entering into the amendment to the 2003 Consent Decree and the Tax Assessments Agreement prompted management to test for recoverability of the Lovett facility under SFAS No. 144 in the second quarter of 2007.

Assumptions and Results

The Company s assessment of Lovett under SFAS No. 144 in the current period involved developing two scenarios for the future expected operation of the Lovett facility. The first scenario considered was the shutdown of unit 5 by April 30, 2008, in accordance with the amendment to the 2003 Consent Decree. The Company also considered a second scenario that assumed operation of unit 5, utilizing coal as the primary fuel source, through 2012 to allow the Lovett facility to continue to contribute to the reliability of the electric system of the State of New York. Property taxes under both scenarios were assumed at the assessed levels specified in the Tax Assessments Agreement for those periods. Additionally, both scenarios included an estimated cost for demolition of the facility to reduce future property taxes, a value for the land on which the facility operates and the sale of previously granted emission allowances for periods beyond the shutdown date. For purposes of measuring an impairment loss, a long-lived asset or assets must be grouped at the lowest level of independent identifiable cash flows. All of the units at Mirant Lovett are viewed as one group. As required under SFAS 144, the assessment did not include the value of new generation capacity that could potentially be constructed at the current Lovett facility site.

As a result of this assessment, in the second quarter of 2007, the Company recorded an impairment loss of $175 million to reduce the carrying value of the Lovett facility to its estimated fair value. The carrying value of the Lovett facility prior to the impairment was approximately $185 million. The remaining depreciable life for the Lovett facility was also adjusted to April 30, 2008, based on the high likelihood of a shutdown of unit 5 on that date.

E. Price Risk Management Assets and Liabilities

The fair values of the Company s price risk management assets and liabilities, net of credit reserves, at June 30, 2007 and December 31, 2006, are as follows (in millions):

	At June 30, 2007				
	Assets		**Liabilities**		
	Current	**Noncurrent**	**Current**	**Noncurrent**	**Net Fair Value**
Electricity	$ 256	$ 35	$ (183)	$ (84)	$ 24
Back-to-Back Agreement(1)			(18)	(316)	(334)
Natural Gas	7		(10)	(1)	(4)
Oil	24	10	(44)	(8)	(18)
Coal	4		(1)		3
Other, including credit reserves	(2)				(2)
Total	$ 289	$ 45	$ (256)	$ (409)	$ (331)

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	At December 31, 2006				
	Assets		Liabilities		
	Current	Noncurrent	Current	Noncurrent	Net Fair Value
Electricity	$ 603	$ 99	$ (247)	$ (8)	$ 447
Back-to-Back Agreement(1)			(36)	(389)	(425)
Natural Gas	21	1	(26)	(2)	(6)
Oil	83		(10)	(29)	44
Coal	13		(3)		10
Other, including credit reserves	(5)				(5)
Total	$ 715	$ 100	$ (322)	$ (428)	$ 65

(1) Contractual arrangement with Pepco with respect to certain PPAs. See Pepco Litigation in Note L for further discussion.

The following table represents the net price risk management assets and liabilities by tenor as of June 30, 2007 (in millions):

	Back-to-Back Agreement	All Other Agreements
2007	$ (8)	$ 71
2008	(15)	(25)
2009	(14)	(24)
2010	(16)	(18)
Thereafter	(281)	(1)
Net assets (liabilities)	$ (334)	$ 3

The volumetric weighted average maturity, or weighted average tenor, of the price risk management portfolio, excluding the Back-to-Back Agreement, at June 30, 2007, was approximately 13 months. The net notional amount of the price risk management assets and liabilities, excluding the Back-to-Back Agreement, at June 30, 2007, was a net short position of approximately 33 million equivalent MWh.

The following table provides a summary of the factors affecting the change in net fair value of the price risk management asset and liability accounts for the six months ended June 30, 2007 (in millions):

	Proprietary Trading and Fuel Oil Management	Asset Management	Back-to-Back Agreement	Total
Net fair value of portfolio at December 31, 2006	$ 106	$ 384	$ (425)	$ 65
Changes in fair value, net	(22)	(124)	70	(76)
Contracts settled during the period, net	(82)	(259)	21	(320)
Net fair value of portfolio at June 30, 2007	$ 2	$ 1	$ (334)	$ (331)

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F. Debt

Long-term debt is as follows (in millions):

	At June 30, 2007	At December 31, 2006	Interest Rate	Secured/ Unsecured
Long-term debt:				
Mirant Americas Generation:				
Senior notes:				
Due 2011	$ 850	$ 850	8.30%	Unsecured
Due 2021	450	450	8.50%	Unsecured
Due 2031	400	400	9.125%	Unsecured
Unamortized debt premium/discount	(3)	(4)		
Mirant North America:				
Term loan, due 2007 to 2013	558	693	LIBOR + 1.75 %	Secured
Notes, due 2013	850	850	7.375%	Unsecured
Capital leases, due 2007 to 2015	34	36	7.375% - 8.19 %	
Total Mirant	3,139	3,275		
Less: current portion of long-term debt	(96)	(142)		
Total long-term debt, excluding current portion	$ 3,043	$ 3,133		

Senior Secured Credit Facilities

Mirant North America, a wholly-owned subsidiary of Mirant Americas Generation, entered into senior secured credit facilities in January 2006, which are comprised of an $800 million six-year senior secured revolving credit facility and a $700 million seven-year senior secured term loan. The full amount of the senior secured revolving credit facility is available for cash draws or for the issuance of letters of credit. On January 3, 2006, Mirant North America drew $465 million under its senior secured revolving credit facility. All amounts were repaid during the first quarter of 2006. The senior secured term loan was fully drawn at closing and amortizes in quarterly installments aggregating 0.25% of the original principal of the term loan per quarter for the first 27 quarters, with the remainder payable on the final maturity date in January 2013. At the closing, $200 million drawn under the senior secured term loan was deposited into a cash collateral account to support the issuance of up to $200 million of letters of credit. As of June 30, 2007, there were approximately $177 million of letters of credit outstanding under the senior secured term loan and $86 million of letters of credit outstanding under the senior secured revolving credit facility. The senior secured credit facilities are obligations of Mirant North America and the respective guarantors and are without recourse to any other Mirant entities.

In addition to the quarterly installments, Mirant North America is required to prepay a portion of the outstanding senior secured term loan principal balance once a year. The prepayment is based on an adjusted EBITDA calculation that determines excess free cash flows, as defined in the loan agreement. On March 20, 2007, the Company made a mandatory principal prepayment of approximately $131 million on the term loan. Based on projections for 2007, the current estimate of the mandatory principal prepayment of the term loan in March 2008 is approximately $86 million. This amount has been reclassified from long-term debt to current portion of long-term debt at June 30, 2007. The estimate of the principal prepayment was reduced in the second quarter of 2007 from $155 million at March 31, 2007, primarily due to changes in the estimated utilization of proceeds from the sale of the Zeeland and Bosque gas-fired plants for capital expenditures at Mirant North America.

G. Financial Statements of Subsidiary in Bankruptcy

The Company s New York subsidiaries, Mirant New York, Mirant Bowline, Mirant Lovett, Hudson Valley Gas and Mirant NY-Gen, remained in bankruptcy at December 31, 2006. On January 26, 2007, Mirant New York, Mirant Bowline and Hudson Valley Gas (collectively the Emerging New York Entities) filed a Supplemental Joint Chapter 11 Plan of Reorganization with the Bankruptcy Court and subsequently filed amendments to that plan (as subsequently amended, the Supplemental Plan). The Supplemental Plan was confirmed by the Bankruptcy Court on March 23, 2007, and became effective on April 16, 2007, resulting in the Emerging New York Entities emergence from bankruptcy. For financial statement presentation purposes, the effects of the Supplemental Plan were recorded on March 31, 2007.

On January 31, 2007, Mirant New York entered into an agreement with Alliance Energy Renewables, LLC for the sale of Mirant NY-Gen, which owns the Hillburn and Shoemaker gas turbine facilities and the Swinging Bridge, Rio and Mongaup hydroelectric generating facilities. The sale price of $5 million was subject to adjustments for working capital and certain dam remediation efforts that were ongoing at the Swinging Bridge facility. The sale closed on May 7, 2007, and the Company recognized a gain of $8 million. Mirant NY-Gen emerged from bankruptcy under a plan of reorganization that incorporated the sale and was approved by the Bankruptcy Court on April 27, 2007.

At June 30, 2007, Mirant Lovett remained in bankruptcy. On July 13, 2007, Mirant Lovett filed a plan of reorganization with the U.S. Bankruptcy Court in Texas. Mirant Lovett is expected to emerge from bankruptcy in the fourth quarter of 2007. Mirant Americas is providing Mirant Lovett with a debtor-in-possession credit facility for working capital. At June 30, 2007, there were no amounts outstanding under this facility. For further discussion see Chapter 11 Proceedings in Note L.

Unaudited condensed financial statements of Mirant Lovett, which remained in bankruptcy at June 30, 2007, are set forth below:

Mirant Lovett
Unaudited Condensed Statements of Operations Data

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2007	2006	2007	2006
	(in millions)			
Operating revenues	$ 30	$ 41	$ 78	$ 102
Total cost of fuel, electricity and other products	17	28	39	68
Operating expenses(1)	193	25	210	47
Operating loss	(180)	(12)	(171)	(13)
Other income, net	(1)			
Net loss	$ (179)	$ (12)	$ (171)	$ (13)

(1) Includes an impairment loss of $175 million in the second quarter of 2007 to reduce the carrying value of the Lovett facility to its estimated fair value.

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Mirant Lovett
Unaudited Condensed Balance Sheet Data

	At June 30, 2007 (in millions)	At December 31, 2006
Assets affiliate	$ 44	$ 63
Assets nonaffiliate	30	24
Property, plant and equipment, net(1)	9	187
Total assets	$ 83	$ 274
Liabilities not subject to compromise		
Liabilities affiliate	$ 3	$ 3
Liabilities nonaffiliate	15	36
Liabilities subject to compromise		
Liabilities affiliate	23	22
Liabilities nonaffiliate	2	2
Member s equity	40	211
Total liabilities and member s equity	$ 83	$ 274

(1) Includes an impairment loss of $175 million in the second quarter of 2007 to reduce the carrying value of the Lovett facility to its estimated fair value.

Mirant Lovett
Unaudited Condensed Statements of Cash Flows Data

	For the Six Months Ended June 30, 2007 (in millions)	2006
Net cash provided by (used in):		
Operating activities	$ (9)	$ 2
Investing activities	19	(2)
Net increase in cash and cash equivalents	10	
Cash and cash equivalents, beginning of period		
Cash and cash equivalents, end of period	$ 10	$

H. Stock-based Compensation

During the first quarter of 2007, the Company granted approximately 589,000 stock options and 418,000 restricted stock units to executives and certain other employees under the Mirant Corporation 2005 Omnibus Incentive Compensation Plan. The stock options have a five-year term and the stock options and restricted stock units vest in three equal installments on each of the first, second and third anniversaries of the grant date. The stock options have an exercise price of $37.71 and a grant date fair value of $8.46. Approximately 359,000 and 59,000 restricted stock units have a grant date fair value of $37.71 and $37.80, respectively, the Company s closing stock price on the day of the grants.

During the second quarter of 2007, the Company granted approximately 15,000 stock options and 9,000 restricted stock units to non-management members of the Board of Directors under the Mirant Corporation 2005 Omnibus Incentive Compensation Plan. The stock options have a five-year term and vest on the first anniversary of the grant date. The stock options have an exercise price of $45.77 and a grant date fair value of $7.41. The restricted stock units vest on the first anniversary of the grant date and have a grant date fair value of $45.77, the Company s closing stock price on the day of the grants.

During the three and six months ended June 30, 2007, the Company recognized approximately $7 million and $14 million, respectively, of compensation expense related to stock options, restricted shares and restricted stock units compared to approximately $3 million and $8 million, respectively, for the same periods in 2006. This amount is included in operations and maintenance expense in the unaudited condensed consolidated statements of operations. As of June 30, 2007, approximately 1.3 million and 280,000 of stock options and restricted shares/restricted stock units, respectively, were vested and have an aggregate intrinsic value of approximately $24 million and $12 million, respectively. Approximately 145,000 stock options were exercised during the six months ended June 30, 2007, and the Company received cash proceeds of approximately $4 million.

As of June 30, 2007, there was approximately $35 million of total unrecognized compensation cost related to non-vested stock-based compensation awards. The outstanding stock options, restricted shares and restricted stock units have an accelerated vesting clause should certain events occur, including a change in control of the Company.

I. Earnings per Share

Mirant calculates basic EPS by dividing income available to shareholders by the weighted average number of common shares outstanding. Diluted EPS gives effect to dilutive potential common shares, including restricted shares, restricted stock units, stock options and warrants.

The following table shows the computation of basic and diluted EPS for the three and six months ended June 30, 2007 and 2006 (in millions except per share data):

	Three Months Ended June 30, 2007	2006	Six Months Ended June 30, 2007	2006
Net income (loss) from continuing operations	$ (83)	$ 107	$ (216)	$ 530
Net income (loss) from discontinued operations	1,339	(8)	1,420	36
Net income as reported	$ 1,256	$ 99	$ 1,204	$ 566
Basic and diluted:				
Weighted average shares outstanding basic	256	300	256	300
Shares due to assumed exercise of warrants and options	29	8	26	8
Shares due to assumed vesting of restricted shares and restricted stock units	1		1	
Weighted average shares outstanding diluted	286	308	283	308
Basic EPS				
EPS from continuing operations	$ (0.32)	$ 0.36	$ (0.84)	$ 1.77
EPS from discontinued operations	5.23	(0.03)	5.54	0.12
Basic EPS	$ 4.91	$ 0.33	$ 4.70	$ 1.89
Diluted EPS				
EPS from continuing operations	$ (0.32)	$ 0.35	$ (0.84)	$ 1.72
EPS from discontinued operations	5.23	(0.03)	5.54	0.12
Diluted EPS	$ 4.91	$ 0.32	$ 4.70	$ 1.84

J. Income Taxes

Adoption of FIN 48

The Company adopted the provisions of FIN 48 on January 1, 2007. Prior to adoption of FIN 48, Mirant recognized contingent liabilities related to tax uncertainties when it was probable that a loss had occurred and the loss or range of loss could be reasonably estimated. The recognition of contingent losses for tax uncertainties required management to make significant assumptions about the expected outcomes of certain tax contingencies. Upon adoption of FIN 48, the Company changed its method to recognize only liabilities for uncertain tax positions that are less than or subject to the measurement threshold of the more-likely-than-not standard. As a result of the implementation of FIN 48, for continuing operations, the Company recognized a decrease in accrued liabilities of $61 million and an increase of $26 million in taxes receivable. For discontinued operations, the adoption of FIN 48 resulted in a decrease in liabilities held for sale and accumulated deficit of $30 million. The total effect of adopting FIN 48 was an increase in stockholders equity of $117 million.

The unrecognized tax benefit for continuing operations as of January 1 and June 30, 2007, was $13 million, all of which would affect the Company s effective tax rate if it were to be recognized. The unrecognized tax benefit included the review of tax positions relating to open tax years beginning in 1999 and continuing to the present. The Company does not currently anticipate any significant changes to the amount of the unrecognized tax benefit absent changes in judgment about the realizability of its recognized or unrecognized tax benefits. The Company s tax provision continues to include the accrual for any penalties and interest subsequent to its adoption of FIN 48.

NOLs

As required by applicable accounting principles, an enterprise that anticipates the realization of a pretax gain must recognize the benefit or detriment of the deferred tax assets and liabilities associated with the transaction in the year in which it becomes more likely than not that the gain will be realized. In accordance with EITF 93-17, *Recognition of Deferred Tax Assets for a Parent Company s Excess Tax Basis in the Stock of a Subsidiary that Is Accounted for as a Discontinued Operation*, the Company recognized a tax benefit in 2006 and 2007 related to the sale of the Philippine business. Conversely, the Company recognized an income tax provision of $710 million in connection with the sale of the Philippine business in income from discontinued operations in the unaudited condensed consolidated statement of operations.

The amount and ultimate utilization of the Company s remaining NOLs will depend on several factors, including the Company s future financial performance and certain tax elections. Specifically, Mirant s utilization of NOLs arising prior to its emergence from bankruptcy will be affected by whether the Company is subject to the default NOL treatment under Internal Revenue Code §382(l)(5) or the alternative tax treatment provided in §382(l)(6).

Previously, Mirant had determined that it was more likely than not that it would elect treatment under §382(l)(5). As a result of further tax planning, Mirant has determined that it is now more likely than not to elect treatment under §382(l)(6) and, accordingly, expects to make the §382(l)(6) election in its 2006 annual tax return to be filed no later than September 17, 2007. Absent making this election, its pre-emergence NOLs would be subject to the default treatment under §382(l)(5). As a result, the Company s recorded deferred income tax items, including its pre-emergence NOLs, are presented in accordance with the §382(l)(6) treatment. This change had no net effect on the consolidated balance sheets or consolidated statements of operations because the increase in deferred tax asset NOLs was equally offset by an increase in the related deferred tax asset valuation allowance. The NOL balance at December 31, 2006, under §382(l)(6) was $3.2 billion as adjusted for the effect of the Mirant Asia Pacific check-the-box election discussed in *Critical Accounting Estimates-Income Taxes*.

Under §382(l)(6), Mirant estimates that it will be subject to a $317 million annual limitation on the use of the pre-emergence NOLs, disregarding the effect of net unrealized built-in gains. The NOLs under this election will not be subject to any previous adjustments for interest accrued on debt settled with stock as required under §382(l)(5). The Company also anticipates that it will elect to reduce the income tax basis of depreciable assets for any cancellation of debt income that arises from making the §382(l)(6) election.

Under §382(l)(5) treatment, Mirant would have unlimited use of its pre-emergence NOLs as long as there is not a change of ownership (broadly defined as 50 percent change of five percent shareholders) within two years of its emergence from bankruptcy. The §382(l)(5) default treatment would require Mirant to reduce its pre-emergence NOLs by $1.1 billion due to interest accrued on debt settled with stock for the three years prior to emergence. Mirant has requested guidance from the Internal Revenue Service concerning certain aspects of the default tax treatment under §382(l)(5), but has not yet received such guidance.

SFAS No. 109 requires that a valuation allowance be established when it is more-likely-than-not that all or a portion of a deferred tax asset will not be realized. The establishment of a valuation allowance requires significant judgment as to a company s ability to generate taxable income during future periods in which temporary differences are expected to be deductible. In making this determination, management considers all available positive and negative evidence affecting specific deferred tax assets, including its past and anticipated future performance, the reversal of deferred tax liabilities and the implementation of tax planning strategies.

K. Segment Reporting

The Company has four operating segments: Mid-Atlantic, Northeast, California and Other Operations. Other Operations includes proprietary trading, fuel oil management, and gains and losses related to the Company s Back-to-Back Agreement. In the following tables, eliminations are primarily related to intercompany sales of emissions allowances and interest on intercompany notes receivable and notes payable.

Operating Segments

	Mid-Atlantic (in millions)	Northeast	California	Other Operations	Eliminations	Total
Three Months Ended June 30, 2007:						
Operating revenues	$ 290	$ 171	$ 40	$ 41	$	$ 542
Cost of fuel, electricity and other products	107	101	9	15	(3)	229
Gross Margin	183	70	31	26	3	313
Operating Expenses:						
Operations and maintenance	91	49	16	43		199
Depreciation and amortization	20	6	4	2		32
Impairment losses		175				175
Gain on sales of assets, net	(1)	(15)	(1)	(5)		(22)
Total operating expenses	110	215	19	40		384
Operating income (loss)	73	(145)	12	(14)	3	(71)
Total other expense (income), net	(2)	(4)	(2)	36		28
Income (loss) from continuing operations before reorganization items and income taxes	75	(141)	14	(50)	3	(99)
Reorganization items, net		(1				