MIRANT CORP
Form 10-Q
November 09, 2007

QuickLinks -- Click here to rapidly navigate through this document

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended September 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 (State or other jurisdiction of Incorporation or Organization)	**001-16107** (Commission File Number)	**20-3538156** (I.R.S. Employer Identification No.)
1155 Perimeter Center West, Suite 100 **Atlanta, Georgia** (Address of Principal Executive Offices)		**30338** (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. ý 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.

ý 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 ý 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. ý Yes o No

The number of shares outstanding of the Registrant's Common Stock, par value $0.01 per share, at October 31, 2007, was 256,073,353.

TABLE OF CONTENTS

Glossary of Certain Defined Terms

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.

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.

CAIR Clean Air Interstate Rule.

CAISO California Independent System Operator.

Cal PX California Power Exchange.

Clean Air Act Federal Clean Air Act.

Clean Water Act Federal Water Pollution Control Act.

CO2 Carbon dioxide.

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

CPUC California Public Utilities Commission.

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 Related 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, *Amendment of 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.

ISO Independent System Operator.

LIBOR London InterBank Offered Rate.

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 Delta Mirant Delta, 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.

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.

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.

PM2.5 Particulate matter that is 2.5 microns or less in size.

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.

SWMAAC Southwestern Mid-Atlantic Area Council.

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," "target," "potential" 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 (the "electricity industry"); changes in state, federal and other regulations affecting the electricity industry (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, and 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;
- our 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 on or after January 3, 2006.

MIRANT CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	**2006**	**2007**	**2006**
	(in millions, except per share data)			
Operating revenues	**$ 717**	$ 963	**$ 1,610**	$ 2,539
Cost of fuel, electricity and other products	**195**	351	**699**	916
Gross Margin	**522**	612	**911**	1,623
Operating Expenses:				
Operations and maintenance	**171**	178	**519**	532
Depreciation and amortization	**33**	35	**97**	103
Impairment losses		120	**175**	120
Gain on sales of assets, net		(3)	**(24)**	(49)
Total operating expenses	**204**	330	**767**	706
Operating Income	**318**	282	**144**	917
Other Expense (Income), net:				
Interest expense	**60**	69	**190**	212
Interest income	**(83)**	(21)	**(136)**	(58)
Gain on sales of investments		(14)		(17)
Other, net	**(340)**		**(343)**	
Total other expense (income), net	**(363)**	34	**(289)**	137
Income From Continuing Operations Before Reorganization Items and Income Taxes	**681**	248	**433**	780
Reorganization items, net			**(2)**	
Provision (benefit) for income taxes	**39**		**9**	2
Income From Continuing Operations	**642**	248	**426**	778
Income (Loss) From Discontinued Operations, net	**133**	(274)	**1,553**	(238)
Net Income (Loss)	**$ 775**	$ (26)	**$ 1,979**	$ 540
Basic EPS:				
Basic EPS from continuing operations	**$ 2.51**	$ 0.87	**$ 1.66**	$ 2.64
Basic EPS from discontinued operations	**0.52**	(0.96)	**6.07**	(0.81)
Basic EPS	**$ 3.03**	$ (0.09)	**$ 7.73**	$ 1.83
Diluted EPS:				
Diluted EPS from continuing operations	**$ 2.27**	$ 0.83	**$ 1.50**	$ 2.55

	Three Months Ended September 30,		Nine Months Ended September 30,	
Diluted EPS from discontinued operations	**0.47**	(0.92)	**5.49**	(0.78)
Diluted EPS	**$ 2.74**	$ (0.09)	**$ 6.99**	$ 1.77
Average shares outstanding	**256**	286	**256**	295
Effect of dilutive securities	**27**	12	**27**	10
Average shares outstanding assuming dilution	**283**	298	**283**	305

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

MIRANT CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

	At September 30, 2007	At December 31, 2006
	(Unaudited)	
	(in millions)	
ASSETS		
Current Assets:		
Cash and cash equivalents	$ **6,325**	$ 1,139
Funds on deposit	**327**	235
Receivables, net	**310**	381
Price risk management assets	**323**	715
Inventories	**300**	287
Prepaid expenses	**149**	142
Assets held for sale		4,987
Deferred income taxes		110
Total current assets	**7,734**	7,996
Property, Plant and Equipment, net	**2,421**	2,201
Noncurrent Assets:		
Intangible assets, net	**207**	214
Price risk management assets	**51**	100
Deferred income taxes	**338**	660
Prepaid rent	**213**	218
Other	**82**	147
Total noncurrent assets	**891**	1,339
Total assets	$ **11,046**	$ 11,536
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Current portion of long-term debt	$ **110**	$ 142
Accounts payable and accrued liabilities	**435**	443
Price risk management liabilities	**272**	322
Liabilities held for sale		2,218
Deferred income taxes	**338**	49
Accrued taxes and other liabilities	**11**	88
Total current liabilities	**1,166**	3,262
Noncurrent Liabilities:		
Long-term debt	**3,027**	3,133
Price risk management liabilities	**79**	428
Asset retirement obligations	**44**	40
Pension and postretirement obligations	**140**	204
Other	**33**	8
Total noncurrent liabilities	**3,323**	3,813
Liabilities Subject to Compromise		18
Commitments and Contingencies		

	At September 30, 2007	At December 31, 2006
Stockholders' Equity:		
Preferred stock, par value $.01 per share, authorized 100,000,000 shares, no shares issued at September 30, 2007 and December 31, 2006		
Common stock, par value $.01 per share, authorized 1.5 billion shares, issued 300,754,369 and 300,200,197 at September 30, 2007 and December 31, 2006, respectively, and outstanding 256,298,301shares and 256,017,187 at September 30, 2007 and December 31, 2006, respectively	**3**	3
Treasury stock, at cost, 44,448,235 shares and 44,183,010 shares at September 30, 2007 and December 31, 2006, respectively	**(1,271)**	(1,261)
Additional paid-in capital	**11,347**	11,317
Accumulated deficit	**(3,502)**	(5,598)
Accumulated other comprehensive income	**(20)**	(18)
Total stockholders' equity	**6,557**	4,443
Total liabilities and stockholders' equity	**$ 11,046**	$ 11,536

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

MIRANT CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(UNAUDITED)

	Common Stock	Treasury Stock	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income
	(in millions)				
Balance, December 31, 2006	$ 3	$ (1,261)	$ 11,317	$ (5,598)	$ (18)
Net income				1,979	
Stock repurchases		(10)			
Stock-based compensation			23		
Exercises of stock options and warrants			7		
Adoption of FIN 48				117	
Other comprehensive income					(2)
Balance, September 30, 2007	**$ 3**	**$ (1,271)**	**$ 11,347**	**$ (3,502)**	**$ (20)**

MIRANT CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(UNAUDITED)

	Nine Months Ended September 30,	
	2007	2006
	(in millions)	
Net Income	**$ 1,979**	$ 540
Other comprehensive income, net of tax		
Cumulative translation adjustment	**4**	3
Unrealized gains on available-for-sale securities		9
Settlement of pension and other postretirement benefits	**(6)**	
Other comprehensive income, net of tax	**(2)**	12
Total Comprehensive Income	**$ 1,977**	$ 552

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)

	Nine Months Ended September 30,	
	2007	**2006**
	(in millions)	
Cash Flows from Operating Activities:		
Net income	$ **1,979**	$ 540
Income (loss) from discontinued operations	**1,553**	(238)
Income from continuing operations	**426**	778
Adjustments to reconcile net income from continuing operations to net cash provided by operating activities:		
Depreciation and amortization	**104**	111
Impairment losses	**175**	120
Gain on sales of assets and investments, net	**(24)**	(66)
Price risk management activities, net	**383**	(638)
Deferred income taxes		
Stock-based compensation	**20**	12
Other postretirement benefits curtailment gain	**(32)**	
Settlement of the Back-to-Back Agreement with Pepco	**(341)**	
Other, net	**3**	(3)
Changes in operating assets and liabilities:		
Receivables, net	**139**	288
Funds on deposit	**(92)**	322
Inventories	**(13)**	(15)
Other assets	**64**	(44)
Accounts payable and accrued liabilities	**(104)**	(120)
Settlement of claims payable	**(34)**	(765)
Accrued taxes and other liabilities	**(19)**	36
Total adjustments	**229**	(762)
Net cash provided by operating activities of continuing operations	**655**	16
Net cash provided by operating activities of discontinued operations	**178**	258
Net cash provided by operating activities	**833**	274
Cash Flows from Investing Activities:		
Capital expenditures	**(385)**	(98)
Proceeds from the sales of assets and other investments	**34**	81
Other	**5**	
Net cash used in investing activities of continuing operations	**(346)**	(17)
Net cash provided by (used in) investing activities of discontinued operations	**5,263**	(123)
Net cash provided by (used in) investing activities	**4,917**	(140)
Cash Flows from Financing Activities:		
Proceeds from issuance of long-term debt		2,016
Repayment of long-term debt	**(139)**	(472)
Proceeds from exercise of stock options and warrants	**7**	1
Settlement of debt under the Plan		(990)
Debt issuance costs		(51)
Stock repurchases	**(10)**	(1,228)

	Nine Months Ended September 30,	
Net cash used in financing activities of continuing operations	**(142)**	(724)
Net cash provided by (used in) financing activities of discontinued operations	**(669)**	259
Net cash used in financing activities	**(811)**	(465)
Net Increase (Decrease) in Cash and Cash Equivalents	**4,939**	(331)
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		216
Cash and Cash Equivalents, end of period	**$ 6,325**	$ 1,004
Supplemental Cash Flow Disclosures:		
Cash paid for interest, net of amounts capitalized	**$ 243**	$ 227
Cash paid for income taxes	**$ 31**	$ 174
Cash paid for claims and professional fees from bankruptcy	**$ 43**	$ 1,843

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 and in California, and energy trading and marketing operations based in Atlanta, Georgia.

On May 1, 2007, the Company completed the sale of six U.S. natural gas-fired plants, 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 June 22, 2007, the Company completed the sale of its Philippine business (2,203 MW). On August 8, 2007, the Company completed the sale of its Caribbean business (1,050 MW). In addition, on May 7, 2007, the Company completed the sale of Mirant NY-Gen (121 MW). After transaction costs and repayment of debt, the net proceeds to Mirant from dispositions completed in the nine months ended September 30, 2007, were approximately $5.070 billion. See Note C for additional information regarding the accounting for these businesses and assets as discontinued operations.

On November 9, 2007, Mirant announced a conclusion to the strategic review process it had announced on April 9, 2007. The Company plans to return a total of $4.6 billion of excess cash to its stockholders. The first stage of the return of cash will consist of an accelerated share repurchase program for $1 billion together with open market purchases for an additional $1 billion. Mirant will determine how best to return additional cash upon completion of the accelerated share repurchase.

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.

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

Cash and Cash Equivalents

Mirant considers all short-term investments with an original maturity of three months or less to be cash equivalents. At September 30, 2007, except for amounts held in bank accounts to cover current payables, all of the Company's cash and cash equivalents were invested in AAA-rated money market funds. During the fourth quarter of 2007, the Company has transferred all of its cash investments into AAA-rated U.S. Treasury money market funds.

Capitalization of Interest Cost

Mirant capitalizes interest on projects during their construction period. The Company determines which debt instruments represent a reasonable measure of the cost of financing construction assets in terms of interest cost incurred that otherwise could have been avoided. These debt instruments and associated interest costs are included in the calculation of the weighted average interest rate used for determining the capitalization rate. Once placed in service, capitalized interest, as a component of the total cost of the plant, is amortized over the estimated useful life of the plant. For the three and nine months ended September 30, 2007 and 2006, the Company incurred the following interest costs (in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	**2006**	**2007**	**2006**
Total interest costs	$ 66	$ 71	$ 206	$ 218
Capitalized and included in property, plant and equipment, net	(6)	(2)	(16)	(6)
Interest expense	$ 60	$ 69	$ 190	$ 212

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 nine months ended September 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 September 30, 2007, were not material.

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

The Company had no assets or liabilities held for sale at September 30, 2007. Assets and liabilities held for sale at December 31, 2006, included discontinued operations and other assets that the Company disposed of in 2007. 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 six U.S. natural gas-fired plants.

The sale of six U.S. natural gas-fired plants was completed on May 1, 2007. The Company recognized a cumulative loss of $345 million related to the sale. In the third quarter of 2006, the Company recorded an impairment loss of $396 million to reduce the carrying value of the assets held for sale to estimated fair value. In subsequent periods, the Company recorded reductions to the impairment loss of approximately $51 million due to the results of the sale process. The net proceeds to Mirant after transaction costs and retiring $83 million of project-related debt were $1.306 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 on May 7, 2007, and recognized a gain of $8 million.

The sale of the Philippine business was completed on June 22, 2007, and the Company recognized a gain of $2.004 billion. The net proceeds to Mirant after transaction costs and the repayment of $642 million of debt were $3.210 billion. The gain and net proceeds are subject to final working capital adjustments.

The sale of the Caribbean business was completed on August 8, 2007, and the Company recognized a gain of approximately $62 million in the third quarter of 2007. The net proceeds to Mirant after transaction costs were $554 million. The gain and net proceeds are subject to final working capital adjustments.

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

	At December 31, 2006
Current Assets:	
Cash and cash equivalents	$ 247
Funds on deposit	126
Other current assets	520
Total current assets	893
Property, Plant and Equipment, net	3,489
Noncurrent Assets:	
Investments	224
Other noncurrent assets	381
Total noncurrent assets	605
Total Assets	$ 4,987
Current Liabilities:	
Short-term debt	$ 25
Current portion of long-term debt	166
Other current liabilities	245
Total current liabilities	436
Noncurrent Liabilities:	
Long-term debt	1,149
Other noncurrent liabilities	633
Total noncurrent liabilities	1,782
Total Liabilities	$ 2,218

During the second quarter of 2007, the Company recognized $9 million of other comprehensive income, net of tax, 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. During the third quarter of 2007, the Company recognized $11 million of other comprehensive loss, net of tax, related to pension and other postretirement benefits as part of the sale of the Caribbean business.

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 as of September 30, 2007.

The Company sold its Wrightsville power generating facility in 2005, but retained transmission credits that arose from transmission system upgrades associated with the construction of the Wrightsville facility. During the third quarter of 2007, Mirant entered into an agreement, that stated the value for the outstanding transmission credits. As a result of the agreement, Mirant recognized a gain of $24 million in income from discontinued operations at September 30, 2007.

For the three and nine months ended September 30, 2007, income from discontinued operations included the results of operations of the Caribbean business, the Philippine business, six U.S. natural gas-fired plants and Mirant NY-Gen through their respective dates of sale and the gain related to Wrightsville described above. For the nine months ended September 30, 2006, income from discontinued operations also included the results of operations of the Wichita Falls facility in Texas through the May 2006 date of its sale.

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

	Three Months Ended September 30, 2007			
	U.S.	**Philippines**	**Caribbean**	**Total**
Operating revenues	$ 24	$	$ 107	$ 131
Operating expenses:				
Loss (gain) on sales of assets	1	6	(62)	(55)
Other operating expenses		1	98	99
Total operating expenses	1	7	36	44
Operating income (loss)	23	(7)	71	87
Provision (benefit) for income taxes		(49)	3	(46)
Other expense (income), net	(3)	(1)	4	
Net income	$ 26	$ 43	$ 64	$ 133

	Three Months Ended September 30, 2006			
	U.S.	**Philippines**	**Caribbean**	**Total**
Operating revenues	$ 148	$ 121	$ 219	$ 488
Operating expenses:				
Loss on sales of assets	396			396
Other operating expenses	81	37	170	288
Total operating expenses	477	37	170	684
Operating income (loss)	(329)	84	49	(196)
Provision (benefit) for income taxes		39	6	45
Other expense, net	1	12	20	33
Net income (loss)	$ (330)	$ 33	$ 23	$ (274)

	Nine Months Ended September 30, 2007			
	U.S.	**Philippines**	**Caribbean**	**Total**
Operating revenues	$ 82	$ 200	$ 514	$ 796
Operating expenses:				
Gain on sales of assets	(38)	(2,004)	(62)	(2,104)
Other operating expenses	65	67	432	564
Total operating expenses (income)	27	(1,937)	370	(1,540)
Operating income	55	2,137	144	2,336

	Nine Months Ended September 30, 2007			
Provision (benefit) for income taxes		704	13	717
Other expense, net	1	33	32	66
Net income	$ 54	$ 1,400	$ 99	$ 1,553

14

	Nine Months Ended September 30, 2006			
	U.S.	Philippines	Caribbean	Total
Operating revenues	$ 255	$ 367	$ 623	$ 1,245
Operating expenses:				
Loss (gain) on sales of assets	396		(1)	395
Other operating expenses	182	119	513	814
Total operating expenses (income)	578	119	512	1,209
Operating income (loss)	(323)	248	111	36
Provision (benefit) for income taxes		187	17	204
Other expense, net	5	20	45	70
Net income (loss)	$ (328)	$ 41	$ 49	$ (238)

Contingencies

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 September 30, 2007, the Company had an outstanding receivable of $20 million related to these recoveries. The $20 million was received in October 2007. Additional recoveries will be recognized in discontinued operations 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.

Nine Months Ended September 30, 2007

Background

The Mirant Lovett generation facility in New York has been in ongoing discussions with the 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. On October 20, 2007, Mirant Lovett submitted notices of its intent to discontinue operations of unit 5 of the Lovett generation facility as of midnight on April 19, 2008, to the New York Public Service Commission, the NYISO, Orange and Rockland and several other potentially affected transmission and distribution companies in New York.

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 second quarter of 2007 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 emissions 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 No. 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.

Three and Nine Months Ended September 30, 2006

In 2006, the Company's assessment of the Bowline unit 3 suspended construction project resulted in the conclusion that the Bowline 3 project as configured and permitted was not economically viable. As a result of this conclusion, the Company determined the estimated value of the equipment and project termination liabilities. At September 30, 2006, the carrying value of the development and construction costs for Bowline unit 3 exceeded the estimated undiscounted cash flows from the abandonment of the project. The Company recorded an impairment of $120 million, which is reflected in impairment losses on the unaudited condensed consolidated statements of operations for the three and nine months ended September 30, 2006.

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 September 30, 2007 and December 31, 2006, were as follows (in millions):

	At September 30, 2007				
	Assets		Liabilities		
	Current	Noncurrent	Current	Noncurrent	Net Fair Value
Electricity	$ 277	$ 36	$ (185)	$ (68)	$ 60
Natural Gas	6	1	(9)		(2)
Oil	39	14	(77)	(11)	(35)
Coal	3		(1)		2
Other, including credit reserves	(2)				(2)
Total	$ 323	$ 51	$ (272)	$ (79)	$ 23

	At December 31, 2006				
	Assets		Liabilities		
	Current	Noncurrent	Current	Noncurrent	Net Fair Value
Electricity	$ 603	$ 99	$ (247)	$ (8)	$ 447
Back-to-Back Agreement			(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

The Settlement Agreement and Release (the "Settlement Agreement") with Pepco and various affiliates of Pepco (collectively the "Pepco Settling Parties") dated May 30, 2006, became fully effective August 10, 2007, and, as a result, the contractual agreement with Pepco with respect to certain PPAs (the "Back-to-Back Agreement") was rejected and terminated. As a result, the Company had no price risk management liabilities related to the Back-to-Back

17

Agreement at September 30, 2007. The fair value of the price risk management liability related to the Back-to-Back Agreement was reversed and the Company recognized a gain of $341 million in other income, net in the unaudited condensed consolidated statements of operations. See "Pepco Litigation" in Note L for further discussion of the Settlement Agreement.

The following table represents the net price risk management assets and liabilities by tenor (in millions):

	At September 30, 2007
2007	$ 66
2008	9
2009	(33)
2010	(18)
Thereafter	(1)
Net assets (liabilities)	$ 23

The volumetric weighted average maturity, or weighted average tenor, of the price risk management portfolio at September 30, 2007, was approximately 12 months. The net notional amount of the price risk management assets and liabilities at September 30, 2007, was a net short position of approximately 28 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 nine months ended September 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	(27)	(89)	84	(32)
Contracts settled during the period, net	(84)	(267)		(351)
Settlement of the Back-to-Back Agreement			341	341
Net fair value of portfolio at September 30, 2007	$ (5)	$ 28	$	$ 23

F. Debt

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

	At September 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	556	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	3,137	3,275		
Less: current portion of long-term debt	(110)	(142)		
Total long-term debt, excluding current portion	$ 3,027	$ 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. 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 September 30, 2007, there were approximately $198 million of letters of credit outstanding under the senior secured term loan and $76 million of letters of credit outstanding under the senior secured revolving credit facility. At September 30, 2007, $724 million was available under the senior secured revolving credit facility for cash draws or for the issuance of letters of credit.

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 $99 million. This amount has been reclassified from long-term debt to current portion of long-term debt at September 30, 2007.

G. Bankruptcy Related Disclosures

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 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.

On July 13, 2007, Mirant Lovett filed a plan of reorganization (the "Mirant Lovett Plan") with the U.S. Bankruptcy Court in Texas. The Mirant Lovett Plan was confirmed by the Bankruptcy Court on September 19, 2007, and became effective on October 2, 2007, resulting in Mirant Lovett's emergence from bankruptcy and payment of claims of approximately $2 million in October 2007. For financial statement presentation purposes, the effects of the Mirant Lovett Plan were recorded on September 30, 2007. As a result of Mirant Lovett's emergence, Mirant has no subsidiaries that remain in bankruptcy. See Note L-*Litigation and Other Contingencies* for further discussion regarding Mirant Lovett's emergence from bankruptcy.

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 a grant date fair value of $8.46 and an exercise price of $37.71, the Company's closing stock price on the day of the grants. 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 a grant date fair value of $7.41and an exercise price of $45.77, the Company's closing stock price on the day of the grants. 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 third quarter of 2007, the Company granted approximately 2,000 stock options and 1,200 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 a grant date fair value of $10.92 and an exercise price of $39.63, the Company's closing stock price on the day of the grants. The restricted stock units have a grant date fair value of $39.63, the Company's closing stock price on the day of the grants.

During the three and nine months ended September 30, 2007, the Company recognized approximately $9 million and $23 million, respectively, of compensation expense related to stock options, restricted shares and restricted stock units, compared to approximately $4 million and

$12 million, respectively, for the same periods in 2006. These amounts were included in operations and maintenance expense in the unaudited condensed consolidated statements of operations, with the exception of approximately $3 million for the three and nine months ended September 30, 2007, which is included in income (loss) from discontinued operations, net. As of September 30, 2007, approximately 1.4 million and 336,000 of stock options and restricted shares/restricted stock units, respectively, were vested and outstanding and have an aggregate intrinsic value of approximately $21 million and $14 million, respectively. Approximately 215,000 stock options were exercised during the nine months ended September 30, 2007, and the Company received cash proceeds of approximately $5.5 million.

As of September 30, 2007, there was approximately $32 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 unvested restricted shares and restricted stock units, stock options and warrants.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	**2006**	**2007**	**2006**
Net income from continuing operations	$ 642	$ 248	$ 426	$ 778
Net income (loss) from discontinued operations	133	(274)	1,553	(238)
Net income (loss) as reported	$ 775	$ (26)	$ 1,979	$ 540
Basic and diluted:				
Weighted average shares outstanding basic	256	286	256	295
Shares due to assumed exercise of warrants and options	26	11	26	9
Shares due to assumed vesting of restricted shares and restricted stock units	1	1	1	1
Weighted average shares outstanding diluted	283	298	283	305
Basic EPS				
EPS from continuing operations	$ 2.51	$ 0.87	$ 1.66	$ 2.64
EPS from discontinued operations	0.52	(0.96)	6.07	(0.81)
Basic EPS	$ 3.03	$ (0.09)	$ 7.73	$ 1.83
Diluted EPS				
EPS from continuing operations	$ 2.27	$ 0.83	$ 1.50	$ 2.55
EPS from discontinued operations	0.47	(0.92)	5.49	(0.78)
Diluted EPS	$ 2.74	$ (0.09)	$ 6.99	$ 1.77

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 September 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 pre-tax 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 arising from and related solely to the sale of the Philippine business. Conversely, in 2007, the Company recognized an income tax provision of $721 million that arose from and was specifically related to the sale of the Philippine business. The entire amount of this provision was recorded in income from discontinued operations in the unaudited condensed consolidated statement of operations for the nine months ended September 30, 2007.

At December 31, 2006, Mirant considered it to be more likely than not that it would elect treatment under §382(l)(5). As a result of further tax planning, the Company made the decision to elect §382(l)(6) in its 2006 income tax return that was filed on September 15, 2007. As a result, the recorded deferred income tax items, including pre-emergence NOLs, are presented in accordance with the §382(l)(6) treatment at September 30, 2007. 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 December 31, 2006, NOL balance under §382(l)(6) was $3.2 billion as adjusted for the effect of the Mirant Asia-Pacific check-the-box election discussed below.

Under §382(l)(6), the Company will be subject to an annual limitation on the use of the pre-emergence NOLs including 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 has elected in its 2006 tax return to reduce the income tax basis of depreciable assets for any cancellation of debt income that arises from making the §382(l)(6) election.

On March 15, 2007, Mirant filed a check-the-box election under which Mirant Asia-Pacific will be treated as a corporation for U.S. federal income tax purposes effective January 1, 2007. As a result of this election, Mirant recognized a taxable gain for U.S. federal income tax purposes in 2006, which was fully offset by other deductions and losses arising in that year.

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. The Company continues to maintain its valuation allowance against its deferred tax assets. As such, the Company's deferred tax assets reduced by the valuation allowance are completely offset with its deferred tax liabilities.

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 with Pepco, which was terminated and settled in the third quarter of 2007 pursuant to the Settlement Agreement becoming fully effective. See Note L for further discussion of the Settlement Agreement with Pepco. 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	Northeast	California	Other Operations	Eliminations	Total
			(in millions)			
Three Months Ended September 30, 2007:						
Operating revenues	$ 542	$ 189	$ 45	$ (59)	$	$ 717
Cost of fuel, electricity and other products	167	118	10	(95)	(5)	195
Gross Margin	375	71	35	36	5	522
Operating Expenses:						
Operations and maintenance	91	46	18	16		171
Depreciation and amortization	21	6	3	3		33
Total operating expenses	112	52	21	19		204
Operating income	263	19	14	17	5	318
Total other expense (income), net	(1)			(362)		(363)
Income from continuing operations before income taxes	264	19	14	379	5	681
Provision (benefit) for income taxes				39		39
Income from continuing operations	$ 264	$ 19	$ 14	$ 340	$ 5	$ 642
Total assets of continuing operations at September 30, 2007	$ 3,702	$ 623	$ 195	$ 7,677	$ (1,151)	$ 11,046

	Mid-Atlantic	Northeast	California	Other Operations	Eliminations	Total
			(in millions)			
Nine Months Ended September 30, 2007:						
Operating revenues	$ 889	$ 513	$ 130	$ 78	$	$ 1,610
Cost of fuel, electricity and other products	404	331	32	(54)	(14)	699
Gross Margin	485	182	98	132	14	911
Operating Expenses:						
Operations and maintenance	265	138	54	62		519
Depreciation and amortization	60	19	10	8		97
Impairment losses		175				175
Gain on sales of assets, net	(2)	(25)	(2)	(5)	10	(24)
Total operating expenses	323	307	62	65	10	767
Operating income (loss)	162	(125)	36	67	4	144
Total other expense (income), net	(4)	(6)	(5)	(274)		(289)
Income (loss) from continuing operations before reorganization items and income taxes	166	(119)	41	341	4	433
Reorganization items, net		(2)				(2)
Provision (benefit) for income taxes				9		9
Income (loss) from continuing operations	$ 166	$ (117)	$ 41	$ 332	$ 4	$ 426
Total assets of continuing operations at September 30, 2007	$ 3,702	$ 623	$ 195	$ 7,677	$ (1,151)	$ 11,046

Operating Segments

	Mid-Atlantic	Northeast	California	Other Operations	Eliminations	Total
			(in millions)			
Three Months Ended September 30, 2006:						
Operating revenues	$ 643	$ 208	$ 56	$ 56	$	$ 963
Cost of fuel, electricity and other products	190	128	16	23	(6)	351
Gross Margin	453	80	40	33	6	612
Operating Expenses:						
Operations and maintenance	80	53	17	28		178
Depreciation and amortization	19	7	3	6		35
Impairment losses		118		2		120
Gain on sales of assets, net	(2)	(3)		(1)	3	(3)
Total operating expenses	97	175	20	35	3	330
Operating income (loss)	356	(95)	20	(2)	3	282
Total other expense (income), net		(2)	(1)	37		34
Income (loss) from continuing operations	$ 356	$ (93)	$ 21	$ (39)	$ 3	$ 248
Total assets of continuing operations at December 31, 2006	$ 3,404	$ 1,184	$ 443	$ 3,326	$ (1,808)	$ 6,549

	Mid-Atlantic	Northeast	California	Other Operations	Eliminations	Total
	(in millions)					
Nine Months Ended September 30, 2006:						
Operating revenues	$ 1,588	$ 649	$ 138	$ 164	$	$ 2,539
Cost of fuel, electricity and other products	480	369	43	62	(38)	916
Gross Margin	1,108	280	95	102	38	1,623
Operating Expenses:						
Operations and maintenance	253	165	47	67		532
Depreciation and amortization	55	18	10	20		103
Impairment losses		118		2		