MIRANT CORP
Form 10-Q
August 09, 2006

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, 2006

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)

Securities registered pursuant to Section 12(b) of the Act:

Common Stock, par value $0.01 per share
Series A Warrants
Series B Warrants

Securities registered pursuant to Section 12(g) of the Act:

None

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.

o Large Accelerated Filer x Accelerated Filer o Nonaccelerated 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, 2006, was 300,027,343.

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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, you can identify forward-looking statements by terminology such as may, will, should, expect, plan, anticipate, estimate, predict, 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 electric utility industry; 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;
- our ability to divest all of our non-U.S. businesses, which are located in the Philippines and the Caribbean, and various of our U.S. intermediate and peaking gas fired assets at prices and on terms that we would be willing to accept, and any adverse impact on our credit rating that may result from such sales;
- changes in market conditions, including developments in energy and commodity supply, demand, volume and pricing, 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 which 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;
- 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 fuel supply and delivery for our facilities;
- curtailment of operations due to transmission constraints;
- environmental regulations that restrict our ability to operate our business;
- war, terrorist activities or the occurrence of a catastrophic loss;
- 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;

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- 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 independent system operators (ISOs) or regional transmission organizations (RTOs) that result in a failure to compensate our generation units adequately for all of their costs;

- 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;

- legislative and regulatory initiatives and changes in the application of laws and regulations by national and local governments in foreign countries where we have operations;

- political factors that affect our international operations, such as political instability, local security concerns, tax increases, expropriation of property, cancellation of contract rights and environmental regulations;

- the inability of our operating subsidiaries to generate sufficient cash flow and our inability to access that cash flow to enable us to make debt service and other payments;

- the fact that our New York subsidiaries remain 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 Mid-Atlantic, LLC (Mirant Mid-Atlantic) contained in its leveraged lease financing agreements;

- the resolution of claims and obligations that were not resolved during the Chapter 11 process that may have a material adverse effect on our results of operations;

- our ability to negotiate favorable terms from suppliers, counterparties and others and to retain customers because we were previously subject to bankruptcy protection; and

- the disposition of the pending litigation described in this Form 10-Q as well as in our Annual Report on Form 10-K for the year ended December 31, 2005.

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.

The solicitation of offers to buy shares of Mirant common stock will be made only pursuant to the offer to purchase and related materials that Mirant sent to its shareholders. Shareholders should read those materials carefully because they will contain important information, including the various terms of, and conditions to, the tender offer. Shareholders will be able to obtain the offer to purchase and related materials at no charge at the Securities and Exchange Commission s website at *www.sec.gov* or from our information agent, Innisfree M&A Incorporated. We urge shareholders to read those materials carefully when they become available prior to making any decisions with respect to the tender offer.

Factors that Could Affect Future Performance

In addition to the discussion of certain risks in Management s Discussion and Analysis of Financial Condition and Results of Operations 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 2005 Annual Report on Form 10-K.

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 o after January 3, 2006.

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

	Three Months Ended June 30, 2006	2005	Six Months Ended June 30, 2006	2005
	(in millions, except per share data)			
Operating Revenues:				
Generation	**$ 813**	$ 776	**$ 1,926**	$ 1,467
Integrated utilities and distribution	**216**	188	**406**	341
Total operating revenues	**1,029**	964	**2,332**	1,808
Cost of fuel, electricity and other products	**417**	509	**857**	957
Gross Margin	**612**	455	**1,475**	851
Operating Expenses:				
Operations and maintenance	**262**	255	**501**	485
Depreciation and amortization	**79**	76	**154**	153
Impairment losses		7		7
Loss (gain) on sales of assets, net	**(6)**	28	**(46)**	25
Total operating expenses	**335**	366	**609**	670
Operating Income	**277**	89	**866**	181
Other Expense (Income), net:				
Interest expense	**96**	32	**197**	63
Equity in income of affiliates	**(4)**	(7)	**(13)**	(14)
Impairment losses on minority owned affiliates			**7**	
Interest income	**(30)**	(7)	**(55)**	(12)
Other, net	**1**	6	**(2)**	6
Total other expense, net	**63**	24	**134**	43
Income From Continuing Operations Before				
Reorganization Items, Income Taxes and Minority Interest	**214**	65	**732**	138
Reorganization items, net		33		94
Provision for income taxes	**114**	35	**161**	32
Minority interest	**1**	6	**5**	13
Income (Loss) From Continuing Operations	**99**	(9)	**566**	(1)
Income (Loss) From Discontinued Operations, net		(1)		2
Net Income (Loss)	**$ 99**	$ (10)	**$ 566**	$ 1
Basic earnings per share	**$ 0.33**		**$ 1.89**	
Diluted earnings per share	**$ 0.32**		**$ 1.84**	
Average shares outstanding	**300**		**300**	
Effect of dilutive securities	**8**		**8**	
Average shares outstanding assuming dilution	**308**		**308**	

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

MIRANT CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

	At June 30, 2006 (Unaudited) (in millions)	At December 31, 2005
ASSETS		
Current Assets:		
Cash and cash equivalents	**$ 1,796**	$ 1,551
Funds on deposit	**557**	1,729
Receivables, net	**652**	873
Price risk management assets	**656**	608
Inventories	**475**	372
Prepaid expenses	**196**	217
Investment in securities available for sale	**44**	30
Other	**22**	40
Total current assets	**4,398**	5,420
Property, Plant and Equipment, net	**6,079**	6,015
Noncurrent Assets:		
Intangible assets, net	**282**	288
Investments	**220**	227
Price risk management assets	**116**	115
Funds on deposit	**167**	188
Deferred income taxes	**366**	315
Other	**411**	344
Total noncurrent assets	**1,562**	1,477
Total assets	**$ 12,039**	$ 12,912
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities:		
Short-term debt	**$ 32**	$ 32
Current portion of long-term debt	**239**	394
Claims payable and estimated claims accrual	**156**	1,948
Accounts payable and accrued liabilities	**551**	783
Price risk management liabilities	**526**	849
Accrued taxes and other	**530**	369
Total current liabilities	**2,034**	4,375
Noncurrent Liabilities:		
Long-term debt	**4,218**	3,307
Price risk management liabilities	**423**	458
Deferred income taxes	**248**	242
Asset retirement obligations	**37**	35
Deferred revenue	**161**	150
Other	**306**	299
Total noncurrent liabilities	**5,393**	4,491
Liabilities Subject to Compromise	**18**	18
Minority Interest in Subsidiary Companies	**147**	172
Commitments and Contingencies		
Stockholders Equity:		
Preferred stock, par value $.01 per share, authorized 100,000,000 shares, issued 0 shares at June 30, 2006 and December 31, 2005		
Common stock, par value $.01 per share, authorized 1.5 billion shares, issued 300,040,906 and 300,000,000 at June 30, 2006 and December 31, 2005, respectively, and outstanding 300,038,196 shares and 300,000,000 at June 30, 2006 and December 31, 2005, respectively	**3**	3
Treasury stock, at cost, 2,710 shares and 0 shares at June 30, 2006 and December 31, 2005, respectively		
Additional paid-in capital	**11,306**	11,298
Accumulated deficit	**(6,896)**	(7,462)
Accumulated other comprehensive income	**34**	17
Total stockholders equity	**4,447**	3,856
Total liabilities and stockholders equity	**$ 12,039**	$ 12,912

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

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

	Common Stock (in millions)	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income
Balance, December 31, 2005	$ 3	$ 11,298	$ (7,462)	$ 17
Net income			**566**	
Stock-based compensation		**8**		
Other comprehensive income				**17**
Balance, June 30, 2006	**$ 3**	**$ 11,306**	**$ (6,896)**	**$ 34**

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

	Six Months Ended June 30, 2006 (in millions)	2005
Net Income	**$ 566**	$ 1
Other comprehensive income, net of tax		
Cumulative translation adjustment	**3**	15
Unrealized gains on available-for-sale securities	**14**	
Other comprehensive income, net of tax	**17**	15
Total Comprehensive Income	**$ 583**	$ 16

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

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

	Six Months Ended June 30, 2006	2005
	(in millions)	
Cash Flows from Operating Activities:		
Net income	**$ 566**	$ 1
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Amortization of transition power agreements and other obligations (non-cash revenue)	**(2)**	(12)
Depreciation and amortization	**159**	158
Impairment charges	**7**	7
Equity in income of affiliates	**(4)**	(5)
(Gain) loss on sales of assets and investments	**(47)**	25
Non-cash charges for reorganization items		22
Price risk management activities, net	**(406)**	(70)
Deferred income taxes	**96**	16
Minority interest	**5**	13
Other, net	**20**	26
Changes in operating assets and liabilities:		
Receivables, net	**217**	9
Other current assets	**231**	28
Other assets	**(18)**	(24)
Accounts payable and accrued liabilities	**(226)**	(116)
Settlement of claims payable	**(757)**	
Taxes accrued	**46**	26
Other liabilities	**(1)**	6
Total adjustments	**(680)**	109
Net cash provided by (used in) operating activities	**(114)**	110
Cash Flows from Investing Activities:		
Capital expenditures	**(86)**	(95)
Cash paid for acquisitions	**(36)**	
Issuance of notes receivable	**(25)**	
Proceeds from the sales of assets and minority owned investments	**73**	72
Other		(5)
Net cash used in investing activities	**(74)**	(28)
Cash Flows from Financing Activities:		
Proceeds from issuance of long-term debt	**2,125**	33
Repayment of long-term debt	**(639)**	(103)
Settlement of debt under the Plan	**(1,035)**	
Debt issuance cost	**(51)**	
Change in debt service reserve fund	**34**	7
Other		(9)
Net cash provided by (used in) financing activities	**434**	(72)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	**(1)**	
Net Increase in Cash and Cash Equivalents	**245**	10
Cash and Cash Equivalents, beginning of period	**1,551**	1,485
Cash and Cash Equivalents, end of period	**$ 1,796**	$ 1,495
Supplemental Cash Flow Disclosures:		
Cash paid for interest, net of amounts capitalized	**$ 169**	$ 60
Cash paid for income taxes	**$ 43**	$ 27
Cash paid for claims and professional fees from bankruptcy	**$ 1,845**	$ 78

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

MIRANT CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

A. Description of Business

Overview

Mirant Corporation and its subsidiaries (collectively, Mirant or the Company) is an international energy company whose revenues primarily are generated through the production of electricity in the United States, the Philippines and the Caribbean. As of June 30, 2006, the Company owned or leased approximately 17,300 megawatts (MW) of electric generating capacity.

Mirant Corporation was incorporated in Delaware on September 23, 2005, and is the successor to a corporation of the same name that was formed in Delaware on April 3, 1993. This succession occurred by virtue of the transfer of substantially all of old Mirant s assets to new Mirant in conjunction with old Mirant s emergence from bankruptcy protection on January 3, 2006. Old Mirant was then renamed and transferred to a trust, which is not affiliated with new Mirant. New Mirant serves as the corporate parent of the business enterprise and, pursuant to the Plan of Reorganization (the Plan) that was approved in connection with old Mirant s emergence from bankruptcy, has no successor liability for any unassumed obligations of old Mirant.

For the periods presented, Mirant managed its business through three principal operating segments: United States, Philippines and Caribbean. The Company s United States segment consists of the ownership, long-term lease and operation of power generation facilities and energy trading and marketing operations. The Philippine segment includes ownership, long-term lease or similar interest and operation of power generation businesses. The Caribbean segment includes investments in power generation businesses in Curacao and Trinidad and Tobago and ownership and operation of fully integrated utilities in the Bahamas and Jamaica which generate power sold to residential, commercial and industrial customers. On July 11, 2006, the Company announced the commencement of auction processes to sell its Philippines and Caribbean businesses. The sales are expected to close by mid-2007. On August 9, 2006, the Company announced the planned sale of various U.S. gas fired assets. The U.S. assets to be sold are the following intermediate and peaking gas fired plants: Zeeland, West Georgia, Shady Hills, Sugar Creek, Bosque and Apex, representing a total of 3,504 MW.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of Mirant and its wholly-owned subsidiaries have been prepared in accordance with United States generally accepted accounting principles (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, 2005.

The accompanying financial statements include the accounts of Mirant and its wholly-owned and controlled majority-owned subsidiaries, as well as variable interest entities in which Mirant has an interest and is the primary beneficiary, and 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 variable interest entities in which Mirant is not the primary beneficiary, also are accounted for using the equity method of accounting.

The Company has held a minority equity interest in Ilijan, a non-consolidated variable interest entity (VIE), since July 2000. The non-consolidated VIE primarily holds an interest in a generation facility and has total assets of approximately $115 million at June 30, 2006. It is the Company s view that its maximum exposure to loss associated with its interest in the non-consolidated VIE is the Company s carrying value of its investment in the VIE at June 30, 2006, of approximately $60 million. The Company s investment in Ilijan is part of its Philippine business to be disposed of.

Certain prior period amounts have been reclassified to conform to the current year financial statement presentation. All amounts are presented in U.S. dollars unless otherwise noted. Due to the announcements on July 11, 2006, and August 9, 2006 the results of operations of the Company s businesses and assets to be disposed of will be reclassified to discontinued operations in the third quarter of 2006.

Impairment of Long-Lived Assets

Mirant evaluates long-lived assets, such as property, plant and equipment and purchased intangible assets subject to amortization, for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. Such evaluations are performed in accordance with Statement of Financial Accounting Standards (SFAS) No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets,* (SFAS No. 144). Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to the estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated undiscounted future cash flows, an impairment charge is recognized as the amount by which the carrying amount of the asset exceeds the discounted future cash flows of the asset. Assets to be disposed of are separately presented in the accompanying consolidated balance sheets and are reported at the lower of the carrying amount or fair value less costs to sell, and are not depreciated. The assets and liabilities of a disposal group classified as held for sale are presented separately in the appropriate asset and liability sections of the accompanying consolidated balance sheets.

On July 11, 2006, the Company announced the commencement of auction processes to dispose of its Caribbean and Philippines businesses. The planned sales will result in the reclassification of the long-lived assets related to these businesses as held for sale beginning in the third quarter of 2006. The Company is currently seeking to sell the Caribbean and Philippines businesses in a single transaction for each business. However, if the operating companies and investments that comprise the Caribbean business are ultimately sold in separate transactions, some write-downs could result.

On August 9, 2006, the Company announced the planned sale of various U.S. gas fired assets. The U.S. assets to be sold are the following intermediate and peaking gas fired plants: Zeeland, West Georgia, Shady Hills, Sugar Creek, Bosque and Apex, representing a total of 3,504 MW. The planned sales will result in the reclassification of the long-lived assets related to these plants as held for sale beginning in the third quarter of 2006. Initial estimates indicate that for each of these plants an impairment loss will need to be recorded in the third quarter to reduce the carrying value of these plants to the fair value less costs to sell. While the amount of the impaiment loss has not yet been determined, the Company currently estimates the total impairment loss for these six plants will range from $500 million to $700 million and will be reflected as a loss from discontinued operations in the Company s condensed consolidated statements of operations for the third quarter of 2006.

Recently Adopted Accounting Standards

In December 2004, the Financial Accounting Standards Board (FASB) issued SFAS No. 123R, *Share-Based Payment* (SFAS No. 123R), which requires companies to recognize in the income statement the grant-date fair value of stock options and other equity-based compensation issued to employees. Mirant adopted the provisions of SFAS No. 123R on January 1, 2006, using the modified prospective transition method. All awards that are granted, modified or settled after the date of adoption will be measured and accounted for in accordance with SFAS No. 123R, with no restatement of prior periods.

Under the modified prospective transition method, a company is required to recognize compensation cost for unvested awards that are outstanding on the effective date based on the fair value that the company had originally estimated for purposes of preparing its SFAS No. 123 pro forma disclosures. Mirant s unvested awards of stock-based compensation at December 31, 2005, were cancelled pursuant to the Plan. Therefore, there was no cumulative effect recognized upon adoption of SFAS No. 123R. Pre-tax expense related to stock-based compensation was approximately $3 million and $8 million, respectively, for the three and six months ended June 30, 2006. See Note F for additional information on the Company s stock-based compensation.

In September 2005, the FASB ratified Emerging Issues Task Force (EITF) Issue 04-13, *Accounting for Purchases and Sales of Inventory with the Same Counterparty* (EITF 04-13), which requires companies to account for certain purchases and sales of inventory with the same counterparty as a single transaction. The Company adopted EITF 04-13 on April 1, 2006. The adoption of EITF 04-13 did not have a material impact on Mirant s statement of operations, financial position or cash flows during the quarter.

New Accounting Standards Not Yet Adopted

In February 2006, the FASB issued SFAS No. 155, *Accounting for Certain Hybrid Financial Instruments* (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 will adopt SFAS No. 155 on January 1, 2007. The adoption of SFAS No. 155 is not expected to have a material impact on the Company s statements of operations, financial position or cash flows.

In March 2006, the FASB issued SFAS No. 156, *Accounting for Servicing of Financial Assets* (SFAS No. 156), which requires all separately recognized servicing assets and servicing liabilities to be measured initially at fair value and permits, but does not require, an entity to measure subsequently those servicing assets or liabilities at fair value. SFAS No. 156 is effective at the beginning of the first fiscal year after September 15, 2006. The Company will adopt SFAS No. 156 on January 1, 2007. All requirements for recognition and initial measurement of servicing assets and servicing liabilities will be applied prospectively to transactions occurring after the adoption of this statement. The adoption of SFAS No. 156 is not expected to have a material impact on the Company s statements of operations, financial position or cash flows.

In April 2006, the FASB issued FASB Staff Position (FSP) FASB Interpretation (FIN) 46R-6, *Determining the Variability to be Considered in Applying FASB Interpretation No. 46R* (FSP FIN 46R-6). The variability that is considered in applying FIN 46 (Revised December 2003), *Consolidation of Variable Interest Entities an Interpretation of Accounting Research Bulletin No. 51* (FIN 46R) affects the determination of whether an entity is a VIE, which interests are variable interests in the entity, and which party, if any, is the primary beneficiary of the VIE. According to FSP FIN 46R-6, the variability to be considered should be based on the nature of the risks of the entity and the purpose for which the entity was created. The guidance in FSP FIN 46R-6 is applicable prospectively to an entity at the time a company first becomes involved with such entity and is applicable to all entities previously required to be analyzed under FIN 46R when a reconsideration event has occurred beginning with the first reporting period after June 15, 2006. Retrospective application to the date of the initial application of FIN 46R is permitted but not required. The Company adopted FSP FIN 46R-6 on July 1, 2006, on a prospective basis. Upon adoption there was no impact on the Company s statements of operations, financial position or cash flow.

On July 13, 2006, the FASB issued FIN No. 48, *Accounting for Uncertainty in Income Taxes: an Interpretation of FASB Statement No. 109* (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise s financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes* (SFAS 109). This Interpretation 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.

The evaluation of a tax position in accordance with FIN 48 is a two-step process. The first step is recognition based on a determination of whether it is more likely than not that a tax position will be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. In evaluating whether a tax position has met the more-likely-than-not recognition threshold, the enterprise should presume that the position will be examined by the appropriate taxing authority having full knowledge of all relevant information. The second step is to measure a tax position that meets the more-likely-than-not threshold. The tax position is measured at the largest amount of benefit that is greater than 50% likely of being realized upon ultimate settlement.

FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company will adopt FIN 48 on January 1, 2007. The provisions of FIN 48 will be applied to all tax positions upon initial adoption of this Interpretation. Only tax positions that meet the more-likely-than-not recognition threshold at the effective date may be recognized or continue to be recognized upon adoption of the Interpretation. The Company has not yet determined the impact of FIN 48 on its statements of operations, financial position or cash flows.

B. Bankruptcy Related Disclosures

Mirant s Plan was confirmed by the United States Bankruptcy Court for the Northern District of Texas (the Bankruptcy Court) on December 9, 2005, and the Company emerged from bankruptcy on January 3, 2006. For financial statement presentation purposes, Mirant recorded the effects of the Plan at December 31, 2005.

At June 30, 2006 and December 31, 2005, amounts related to allowed claims, estimated unresolved claims and professional fees associated with the bankruptcy that are to be settled in cash are $156 million and $1.948 billion, respectively, and these amounts are recorded in claims payable and estimated claims accrual on the accompanying condensed consolidated balance sheets. These amounts do not include unresolved claims that will be settled in common stock or the stock portion of claims that are expected to be settled with cash and stock. During the six months ended June 30, 2006, the Company paid approximately $1.792 billion in cash related to bankruptcy claims. Of this amount approximately $1.035 billion is reflected in cash flows from financing activities and represents the principal amount of debt claims. The remaining $757 million is reflected in cash flows from operating activities and represents other bankruptcy claims and interest. As of June 30, 2006, approximately 21.3 million of the shares of Mirant common stock to be distributed under the Plan have not yet been distributed and have been reserved for distribution with respect to claims that are disputed by the Mirant Debtors and have yet to be resolved. See Note G Proposed Pepco Settlement for further discussion.

Financial Statements of Subsidiaries in Bankruptcy

Mirant s New York subsidiaries remain in bankruptcy and include the following entities: Mirant Lovett, LLC (Mirant Lovett), Mirant Bowline, LLC (Mirant Bowline), Mirant NY-Gen, LLC (Mirant NY-Gen), Mirant New York, Inc. (Mirant New York) and Hudson Valley Gas Corporation. Unaudited condensed consolidated financial statements of Mirant s New York subsidiaries are set forth below:

Mirant New York Subsidiaries
Unaudited Condensed Consolidated Statements of Operations Data
(in millions)

	Three Months Ended June 30, 2006	2005	Six Months Ended June 30, 2006	2005
Operating revenues	$ 71	$ 85	$ 189	$ 150
Cost of fuel, electricity and other products	41	70	84	119
Operating expenses	53	48	95	86
Operating income (loss)	(23)	(33)	10	(55)
Other expense, net		1	2	1
Reorganization items, net	(1)	(1)	(2)	(1)
Provision for income taxes				1
Net income (loss)	$ (22)	$ (33)	$ 10	$ (56)

Mirant New York Subsidiaries
Unaudited Condensed Consolidated Balance Sheets Data
(in millions)

	At June 30, 2006	At December 31, 2005
Current assets	$ 99	$ 31
Intercompany receivables	102	149
Property, plant and equipment, net	494	502
Other	12	4
Total assets	$ 707	$ 686
Liabilities not subject to compromise:		
Current liabilities	$ 192	$ 168
Intercompany payables	23	36
Noncurrent liabilities	10	9
Liabilities subject to compromise affiliate	61	62
Liabilities subject to compromise nonaffiliate	18	18
Stockholders equity	403	393
Total liabilities and stockholders equity	$ 707	$ 686

Mirant New York Subsidiaries

Unaudited Condensed Consolidated Statements of Cash Flows Data

(in millions)

	Six Months Ended June 30, 2006	Six Months Ended June 30, 2005
Net cash provided by (used in):		
Operating activities	$ (7)	$
Investing activities	73	(3)
Financing activities	5	3
Net increase in cash and cash equivalents	71	
Cash and cash equivalents, beginning of period	1	
Cash and cash equivalents, end of period	$ 72	$

Liabilities Subject to Compromise

The Company s liabilities subject to compromise are $18 million at both June 30, 2006 and December 31, 2005, and relate to its New York subsidiaries that remain in bankruptcy.

Reorganization Items, net

For the three and six months ended June 30, 2006, reorganization items, net are less than $1 million and relate to the New York subsidiaries.

For the three and six months ended June 30, 2005, reorganization items, net represents amounts that were recorded in the financial statements as a result of the bankruptcy proceedings. The following were the significant items within this category (in millions):

	Three Months Ended June 30, 2005	Six Months Ended June 30, 2005
Estimated claims and losses on rejected and amended contracts	$ (5)	$ 25
Professional fees and administrative expense	47	84
Interest income, net	(9)	(15)
Total	$ 33	$ 94

For the three and six months ended June 30, 2006, the Company incurred $5 million and $11 million, respectively, of professional fees and administrative expenses related to the bankruptcy proceedings for entities that have emerged from bankruptcy. As these expenses were incurred subsequent to the Company s January 3, 2006, emergence from bankruptcy, these amounts are included in operations and maintenance expense in the unaudited condensed consolidated statements of operations.

C. Discontinued Operations and Assets Held for Sale

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 June 30, 2006. In February 2006, Mirant executed an agreement to sell its 77 MW combined cycle Wichita Falls facility in Texas. The sale of the plant was completed on May 4, 2006.

For the three and six months ended June 30, 2006, income from discontinued operations relates to the Wichita Falls facility. For the three and six months ended June 30, 2005, income from discontinued operations includes Wichita Falls as well as the Company s Wrightsville generating facility that was sold in September 2005. A summary of the operating results for these discontinued operations for the three and six months ended June 30, 2006 and 2005 follows (in millions):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
Operating revenues	$	$ 7	$	$ 9
Operating expenses, including other expense, net		6		10
Income (loss) before reorganization items		1		(1)
Reorganization items expense (benefit), net		2		(3)
Net income (loss)	$	$ (1)	$	$ 2

Assets Held for Sale

No assets were held for sale as of June 30, 2006. Assets held for sale as of December 31, 2005, were comprised of $11 million of property, plant and equipment, net, and primarily included the Mirant Service Center and the Wichita Falls facility, and are recorded in other current assets on the condensed consolidated balance sheets. The sale of the Mirant Service Center closed on June 30, 2006, and the Company recognized a gain of approximately $6 million.

Planned Business and Asset Dispositions

On July 11, 2006, Mirant announced the commencement of auction processes to sell its Philippines and Caribbean businesses. Mirant has ownership interests in three generating facilities in the Philippines: Sual, Pagbilao and Ilijan. Its net ownership interest in these three generating facilities to be sold is approximately 2,200 MW. Mirant s net ownership interest in the Caribbean businesses comprises 1,050 MW. The ownership includes controlling interests in two vertically integrated utilities: an 80% interest in Jamaica Public Service Company Limited and a 55% interest in Grand Bahama Power Company. Mirant also owns a 39% interest in the Power Generation Company of Trinidad and Tobago (PowerGen), a 26% interest in Curacao Utilities Company and a $40 million convertible preferred equity interest in Aqualectra, an integrated water and electric company in Curacao.

On August 9, 2006, Mirant announced the planned sale of various U.S. gas fired assets. The U.S. assets to be sold are the following intermediate and peaking gas fired plants: Zeeland (837 MW), West Georgia (605 MW), Shady Hills (468 MW), Sugar Creek (535 MW), Bosque (532 MW) and Apex (527 MW), representing a total of 3,504 MW. See Note A Impairment of Long-Lived Assets for discussion of impairment losses related to these plants.

The planned sales will result in the reclassification of the revenues and expenses of these businesses and assets to discontinued operations and the reclassification of the related assets and liabilities to assets held for sale and liabilities held for sale, respectively, in the third quarter of 2006. The following table presents a pro forma summary of the operating results for these businesses and assets for the three and six months ended June 30, 2006 and 2005 (in millions):

	Three Months Ended June 30, 2006			
	Philippines	Caribbean	U.S. Gas Assets	Total
Operating revenues	$ 124	$ 215	$ 68	$ 407
Operating expenses, including other (expense) income, net	42	196	58	296
Income before income taxes and minority interest	82	19	10	111
Provision for income taxes	108	5	-	113
Minority interest	(1)	2		1
Net income (loss)	$ (25)	$ 12	$ 10	$ (3)

	Three Months Ended June 30, 2005			
	Philippines	Caribbean	U.S. Gas Assets	Total
Operating revenues	$ 125	$ 186	$ 65	$ 376
Operating expenses, including other (expense) income, net	58	164	61	283
Income before income taxes, minority interest and reorganization, net	67	22	4	93
Reorganization items, net	-	-	63	63
Provision for income taxes	30	5	-	35
Minority interest	2	4		6
Net income (loss)	$ 35	$ 13	$ (59)	$ (11)

	Six Months Ended June 30, 2006			
	Philippines	Caribbean	U.S. Gas Assets	Total
Operating revenues	$ 246	$ 403	$ 99	$ 748
Operating expenses, including other (expense) income, net	90	360	95	545
Income before income taxes and minority interest	156	43	4	203
Provision for income taxes	148	11	-	159
Minority interest	(1)	6		5
Net income	$ 9	$ 26	$ 4	$ 39

	Six Months Ended June 30, 2005			
	Philippines	Caribbean	U.S. Gas Assets	Total
Operating revenues	$ 248	$ 336	$ 103	$ 687
Operating expenses, including other (expense) income, net	108	293	109	510
Income before income taxes, minority interest and reorganization, net	140	43	(6)	177
Reorganization items, net	-	-	63	63
Provision for income taxes	49	10	-	59
Minority interest	5	8		13
Net income (loss)	$ 86	$ 25	$ (69)	$ 42

The pro forma operating results exclude corporate overhead costs historically allocated to these businesses and assets.

D. Price Risk Management Assets and Liabilities

The fair values of Mirant s price risk management assets and liabilities, net of credit reserves, at June 30, 2006, are included in the following table (in millions):

	Net Price Risk Management Assets/(Liabilities)				
	Assets		Liabilities		
	Current	Noncurrent	Current	Noncurrent	Net Fair Value
Electricity	$ 591	$ 104	$ (447)	$ (17)	$ 231
Back-to-Back Agreement (1)			(32)	(395)	(427)
Natural gas	43	6	(37)	(8)	4
Oil	16		(1)	(3)	12
Coal	12	6	(8)		10
Other, including credit reserve	(6)		(1)		(7)
Total	$ 656	$ 116	$ (526)	$ (423)	$ (177)

(1) Contractual arrangement with Pepco with respect to certain power purchase agreements (PPAs). See Pepco Litigation in Note G for further discussion.

Of the $177 million net fair value liability at June 30, 2006, a net price risk management asset of $71 million relates to the remainder of 2006, a net price risk management asset of $76 million relates to 2007 and a net price risk management liability of $324 million relates to periods thereafter. The volumetric weighted average maturity, or weighted average tenor, of the price risk management portfolio at June 30, 2006, was approximately 14 months. The net notional amount of the price risk management assets and liabilities at June 30, 2006, was a net short position of approximately 28 million equivalent megawatt hours (MWh).

In January 2006, the Company entered into financial swap transactions with a counterparty, the effect of which was to hedge its Mid-Atlantic expected on-peak coal fired generation by approximately 80%, 50% and 50% for 2007, 2008 and 2009, respectively.

The following table provides a summary of the factors impacting the change in net fair value of the price risk management asset and liability accounts for the six months ended June 30, 2006 (in millions):

	Proprietary Trading	Asset Management	Back-to-Back Agreement	Total
Net fair value of portfolio at December 31, 2005	$ 40	$ (181)	$ (443)	$ (584)
Gains recognized in the period, net	23	287	1	311
Contracts settled during the period, net	(10)	91	15	96
Net fair value of portfolio at June 30, 2006	$ 53	$ 197	$ (427)	$ (177)

E. Debt

Long-term debt at June 30, 2006 and December 31, 2005, was as follows (in millions):

	At June 30, 2006	At December 31, 2005	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 2006 to 2013 (1)	696		LIBOR + 1.75%	Secured
Note, due 2013.	850	850	7.375%	Unsecured
Mirant Zeeland capital lease, due 2006 to 2012	12	11	9.5%	
Other:				
Mirant Peaker capital lease, due 2006 to 2015	35	36	8.19%	
Mirant Pagbilao project loan, due 2006 to 2007	66	99	LIBOR + 2.15% to 10.25%	Secured
Mirant Sual project loan, due 2006 to 2012	405	452	5.95% to 10.56%	Secured
Jamaica Public Service Company Limited, due 2006 to 2030	225	230	7.00% to LIBOR + 7.5%	Secured
Mirant Grand Bahama Limited, due 2006 to 2011	11	12	LIBOR + 1.25%	Secured