MIRANT CORP
Form 10-Q
August 08, 2005

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, 2005

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**	**58-2056305**
(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	**www.mirant.com**
(Registrant s Telephone Number, Including Area Code)	(Web Page)

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 an accelerated filer (as defined by Rule 12b-2 of the Act).

x Yes o No

The number of shares outstanding of the Registrant s Common Stock, par value $0.01 per share, at August 1, 2005 was 405,468,084.

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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, believe, estimate, 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:

General Factors

- 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;

- our pursuit of potential business strategies, including the disposition or utilization of assets;

- 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;

- 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 (OTC) 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 optimization activities as expected;

- our ability to borrow additional funds and access capital markets;

- strikes, union activity or labor unrest;

- weather and other natural phenomena;

- 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;

- 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 operators (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 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 activities;

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

- 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;

- 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; and

- the disposition of the pending litigation described in this Form 10-Q as well as our Form 10-K for the year ended December 31, 2004.

Bankruptcy-Related Factors

- the lack of comparable financial data due to the restructuring of our business and the potential adoption of fresh start reporting;

- the actions and decisions of our creditors and of other third parties with interests in the voluntary petitions for reorganization filed with the U.S. Bankruptcy Court for the Northern District of Texas, Fort Worth Division (the Bankruptcy Court) on July 14, 2003 and July 15, 2003 (collectively, the Petition Date), August 18, 2003, October 3, 2003 and November 18, 2003, by Mirant Corporation (Mirant) and substantially all of its wholly-owned and certain non wholly-owned U.S. subsidiaries (Mirant Debtors) under Chapter 11 (Chapter 11) of the U.S. Bankruptcy Code (the Bankruptcy Code), including actions taken by our creditors and other third parties with respect to our proposed plan of reorganization, filed with the Bankruptcy Court on January 19, 2005, as amended on March 25, 2005, and any subsequent amendments thereto (the Plan);

- our ability to satisfy the conditions precedent to the effectiveness of our proposed Plan, including our ability to secure the necessary financing commitments;

- the effects of the Chapter 11 proceedings on our liquidity and results of operations;

- the instructions, orders and decisions of the Bankruptcy Court, the U.S. District Court for the Northern District of Texas, the U.S. Court of Appeals for the Fifth Circuit, the Federal Energy Regulatory Commission (the FERC) and other legal and administrative proceedings, settlements, investigations and claims;

- our ability to operate pursuant to the terms of our debtor-in-possession financing agreement;

- our ability to successfully reject unfavorable contracts;

- the disposition of unliquidated claims against us;

- our ability to obtain and maintain normal terms with vendors and service providers and to maintain contracts that are critical to our operations;

- our ability to attract and retain key employees;

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- possible decisions by our pre-petition creditors who may receive Mirant common stock upon our emergence from bankruptcy and therefore may have the right to select our board members and influence certain aspects of our business operations;

- the possibility that certain of our subsidiaries may remain in bankruptcy after our emergence;

- the effects of changes in our organizational structure in conjunction with our emergence from Chapter 11 protection, including changes resulting from our reorganization under a new parent entity formed in a jurisdiction outside the United States; and

- the duration of our Chapter 11 proceedings.

The ultimate outcome of matters with respect to which we make forward-looking statements and the terms of any reorganization plan ultimately confirmed can affect the value of our various pre-petition liabilities, common stock and other securities. No assurance can be given as to what values, if any, will be ascribed in the bankruptcy proceedings to each of these constituencies. The proposed Plan could result in holders of our common stock receiving no distribution on account of their interests and cancellation of their interests. Accordingly, we urge that appropriate caution be exercised with respect to existing and future investments in our common stock or any claims relating to pre-petition liabilities or other Mirant securities.

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

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 Notes to Mirant s 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 2004 Annual Report on Form 10-K.

MIRANT CORPORATION AND SUBSIDIARIES
(Debtor-in-Possession)
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

	Three Months Ended June 30, 2005	2004	Six Months Ended June 30, 2005	2004
	(In millions, except per share data)			
Operating Revenues:				
Generation	**$ 780**	$ 1,129	**$ 1,474**	$ 2,178
Integrated utilities and distribution	**189**	135	**341**	270
Total operating revenues	**969**	1,264	**1,815**	2,448
Cost of fuel, electricity and other products	**512**	768	**963**	1,501
Gross Margin	**457**	496	**852**	947
Operating Expenses:				
Operations and maintenance	**255**	249	**484**	495
Depreciation and amortization	**77**	75	**154**	154
Impairment losses and restructuring charges	**8**	5	**10**	7
Loss (gain) on sales of assets, net	**28**	1	**25**	(15)
Total operating expenses	**368**	330	**673**	641
Operating Income	**89**	166	**179**	306
Other (Expense) Income, net:				
Interest expense	**(32)**	(33)	**(63)**	(66)
Equity in income of affiliates	**7**	7	**14**	13
Interest income	**7**	2	**12**	5
Other, net	**(6)**	35	**(6)**	32
Total other (expense) income, net	**(24)**	11	**(43)**	(16)
Income From Continuing Operations				
Before Reorganization Items, Income Taxes and Minority Interest	**65**	177	**136**	290
Reorganization items, net	**33**	73	**94**	130
Provision for Income Taxes	**35**	13	**32**	32
Minority Interest	**7**	7	**13**	12
(Loss) Income From Continuing Operations	**(10)**	84	**(3)**	116
Income (Loss) from Discontinued Operations, net of tax		(52)	**4**	(54)
Net (Loss) Income	**$ (10)**	$ 32	**$ 1**	$ 62
(Loss) Earnings Per Share:				
Basic and Diluted:				
From continuing operations	**$ (0.02)**	$ 0.21	**$ (0.01)**	$ 0.28
From discontinued operations		(0.13)	**0.01**	(0.13)
Net (loss) income	**$ (0.02)**	$ 0.08	**$**	$ 0.15

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

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MIRANT CORPORATION AND SUBSIDIARIES
(Debtor-in-Possession)
CONDENSED CONSOLIDATED BALANCE SHEETS

		At June 30, 2005 (Unaudited) (in millions)	At December 31, 2004
ASSETS			
Current Assets:			
Cash and cash equivalents		**$ 1,495**	$ 1,485
Funds on deposit		**494**	493
Receivables, net		**677**	771
Price risk management assets		**348**	209
Inventories		**358**	353
Prepaid expenses		**232**	253
Assets held for sale		**124**	222
Other		**136**	133
Total current assets		**3,864**	3,919
Property, Plant and Equipment, net		**6,112**	6,170
Noncurrent Assets:			
Intangible assets, net		**271**	276
Investments		**256**	248
Price risk management assets		**146**	112
Funds on deposit		**205**	210
Deferred income taxes		**185**	185
Other		**341**	304
Total noncurrent assets		**1,404**	1,335
Total assets		**$ 11,380**	$ 11,424
LIABILITIES AND STOCKHOLDERS DEFICIT			
Current Liabilities:			
Short-term debt		**$ 10**	$ 15
Current portion of long-term liabilities		**271**	206
Accounts payable and accrued liabilities		**559**	725
Price risk management liabilities		**395**	286
Accrued taxes and other		**198**	174
Total current liabilities		**1,433**	1,406
Noncurrent Liabilities:			
Long-term debt		**1,023**	1,169
Price risk management liabilities		**94**	62
Deferred income taxes		**360**	346
Other		**396**	378
Total noncurrent liabilities		**1,873**	1,955
Liabilities Subject to Compromise		**9,206**	9,217
Minority Interest in Subsidiary Companies		**170**	164
Commitments and Contingencies			
Stockholders Equity (Deficit):			
Common stock, $.01 par value, per share		**4**	4
Authorized 2,000,000,000 shares			
Issued	June 30, 2005:405,568,084 shares		
	December 31, 2004:405,568,084 shares		
Treasury	June 30, 2005: 100,000 shares		
	December 31, 2004: 100,000 shares		
Additional paid-in capital		**4,918**	4,918
Accumulated deficit		**(6,154)**	(6,155)
Accumulated other comprehensive loss		**(68)**	(83)
Treasury stock, at cost		**(2)**	(2)
Total stockholders deficit		**(1,302)**	(1,318)
Total liabilities and stockholders deficit		**$ 11,380**	$ 11,424

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

MIRANT CORPORATION AND SUBSIDIARIES
(Debtor-in-Possession)

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY (DEFICIT)

(UNAUDITED)

	Common Stock (in millions)	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Treasury Stock
Balance, December 31, 2004	$ 4	$ 4,918	$ (6,155)	$ (83)	$ (2)
Net income			**1**		
Other comprehensive income				**15**	
Balance, June 30, 2005	**$ 4**	**$ 4,918**	**$ (6,154)**	**$ (68)**	**$ (2)**

MIRANT CORPORATION AND SUBSIDIARIES
(Debtor-in-Possession)
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(UNAUDITED)

	Six Months Ended June 30, 2005 (in millions)	2004
Net Income	$ 1	$ 62
Other comprehensive income, net of tax		
Reclassification of TIERS investment unrealized gains to earnings		(7)
Cumulative translation adjustment	15	10
Unrealized gain on TIERS investments		5
Other comprehensive income, net of tax	15	8
Total Comprehensive Income	**$ 16**	**$ 70**

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

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MIRANT CORPORATION AND SUBSIDIARIES
(Debtor-in-Possession)
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	Six Months Ended June 30, 2005	2004
	(in millions)	
Cash Flows from Operating Activities:		
Net income	**$ 1**	$ 62
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)	**(12)**	(236)
Depreciation and amortization	**158**	161
Impairment losses and restructuring charges	**7**	48
Loss (gain) on sales of assets and investments	**25**	(15)
Equity in income of affiliates, net of dividends	**(5)**	(2)
Non-cash charges for reorganization items	**22**	91
Minority interest	**13**	12
Price risk management activities, net	**(70)**	(66)
Deferred income taxes	**16**	5
Other, net	**26**	(10)
Changes in operating assets and liabilities:		
Receivables, net	**9**	160
Other current assets	**28**	(163)
Other assets	**(24)**	(12)
Accounts payable and accrued liabilities	**(116)**	(303)
Taxes accrued	**26**	19
Other liabilities	**6**	(1)
Total adjustments	**109**	(312)
Net cash provided by (used in) operating activities	**110**	(250)
Cash Flows from Investing Activities:		
Capital expenditures	**(95)**	(60)
Cash paid for acquisitions		(21)
Proceeds from the sale of assets and minority owned investments	**72**	3
Cash paid related to disposition		(12)
Other	**(5)**	1
Net cash used in investing activities	**(28)**	(89)
Cash Flows from Financing Activities:		
Payments on short-term debt, net	**(3)**	(3)
Proceeds from issuance of long-term debt	**33**	132
Repayment of long-term debt	**(103)**	(101)
Payment of dividends to minority interests	**(7)**	(7)
Change in debt service reserve fund	**7**	4
Other	**1**	
Net cash (used in) provided by financing activities	**(72)**	25
Net Increase (Decrease) in Cash and Cash Equivalents	**10**	(314)
Cash and Cash Equivalents, beginning of period	**1,485**	1,587
Cash and Cash Equivalents, end of period	**$ 1,495**	$ 1,273
Supplemental Cash Flow Disclosures:		
Cash paid for interest, net of amounts capitalized	**$ 60**	$ 55
Cash paid for income taxes	**$ 27**	$ 25
Cash paid for reorganization items	**$ 78**	$ 57
Business Acquisitions:		
Fair value of assets acquired	**$**	$ 21
Less cash paid		21
Liabilities assumed	**$**	$

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

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MIRANT CORPORATION AND SUBSIDIARIES
(Debtor-in-Possession)
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2005 and 2004

A. Description of Business

Overview

Mirant Corporation (formerly Southern Energy, Inc.) and its subsidiaries (collectively, Mirant or the Company) is an international energy company incorporated in Delaware on April 20, 1993. Prior to April 2, 2001, Mirant was a subsidiary of Southern Company (Southern). The Company s revenues are primarily generated through the production of electricity in the United States, the Philippines and the Caribbean. As of June 30, 2005, Mirant owned or leased approximately 18,000 megawatts (MW) of electric generating capacity.

Mirant manages its business through two principal operating segments: North America and International. The Company s North America segment consists of the ownership and operation of power generation facilities and energy trading and marketing operations. The International segment includes power generation businesses in the Philippines, Curacao and Trinidad and Tobago, and integrated utilities in the Bahamas and Jamaica.

Basis of Presentation

The accompanying condensed consolidated financial statements (unaudited) of Mirant and its wholly-owned subsidiaries have been prepared in accordance with accounting principles generally accepted in the United States of America (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 Form 10-K for the year ended December 31, 2004.

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, are also accounted for using the equity method of accounting.

The Company has held a minority equity interest in 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 $108 million at June 30, 2005. The Company believes 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, 2005 of approximately $57 million.

Certain prior period amounts have been reclassified to conform to the current period financial statement presentation. All amounts are presented in U.S. dollars unless otherwise noted. In addition, the Company s income tax provision for the six months ended June 30, 2005 includes an $11 million benefit related to amendments to the Company s U.S. Federal income tax returns for the years 1999 through 2001.

New Accounting Standards Not Yet Adopted

In December 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 123R, *Share-Based Payment: an amendment of FASB Statements No. 123 and 95* (SFAS 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. The provisions of the statement are effective for financial statements issued for fiscal years beginning after June 15, 2005. The Company will use the modified prospective transition method. Under the modified prospective transition method, awards that are granted, modified or settled after the date of adoption will be measured and accounted for in accordance with SFAS 123R. Compensation cost for awards granted prior to, but not vested as of, the date SFAS 123R is adopted will be based on the grant date fair value and attributes originally used to value those awards. The Company will adopt the provisions of SFAS 123R on the earlier of its emergence from bankruptcy or the effective date of SFAS 123R. The Company has a number of options granted prior to the Petition Date that are not fully vested. Under the Company s proposed Plan of Reorganization (as amended, the Plan), these options will be cancelled. New options may be granted to employees under the proposed Plan. Due to the Company s debtor-in-possession status and uncertainty related to the Plan and timing of the Company s emergence from bankruptcy, the Company cannot currently predict the effect SFAS 123R will have on its financial statements.

In March 2005, the FASB issued FASB Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations* (FIN 47). The interpretation requires companies to recognize a liability for the fair value of a legal obligation to perform asset retirement activities that are conditional on a future event if the amount can be reasonably estimated. FIN 47 is effective for fiscal years ending after December 15, 2005. The Company will adopt the provisions of FIN 47 on the earlier of its emergence from bankruptcy or the effective date of FIN 47. The Company has not yet determined the impact, if any, of FIN 47 on its financial statements.

B. Bankruptcy Related Disclosures

On January 19, 2005, Mirant Corporation and substantially all of its wholly-owned and certain non wholly-owned U.S. subsidiaries (Mirant Debtors) filed a proposed Plan and Disclosure Statement (as amended, the Disclosure Statement) with the Bankruptcy Court. A First Amended Plan and a First Amended Disclosure Statement were filed on March 25, 2005. The proposed Plan sets forth the proposed structure of the Company and its subsidiaries at emergence and outlines how the claims of creditors and stockholders are proposed to be treated. Once the Disclosure Statement is complete, the Bankruptcy Court will hold a hearing to determine its adequacy. If the Disclosure Statement is found by the Bankruptcy Court to contain adequate information, then the Mirant Debtors will use the Disclosure Statement to solicit votes on the proposed Plan from those creditors, security holders and interest holders who are entitled to vote on the proposed Plan.

The proposed Plan implements and is built around the following key elements:

- the business of the Mirant Debtors will continue to be operated in substantially its current form, subject to (1) certain internal structural changes that the Mirant Debtors believe will improve operational efficiency, facilitate and optimize their ability to meet financing requirements and accommodate their debt structure as contemplated at emergence and

(2) organizing the new parent entity for the Mirant Debtors ongoing business operations (New Mirant) in a jurisdiction outside the United States;

- the estates of the Mirant Debtors (excluding Mirant Americas Generation, LLC (Mirant Americas Generation) and its debtor subsidiaries) (collectively, the Consolidated Mirant Debtors) will be substantively consolidated solely for purposes of voting on the Plan (except as set forth in Section 7.3 of the Plan), confirmation of the Plan and determining the treatment of claims against and equity interests in such Consolidated Mirant Debtors under the proposed Plan;

- the estates of Mirant Americas Generation and its debtor subsidiaries (collectively, the Mirant Americas Generation Debtors) will be substantively consolidated solely for purposes of voting on the Plan (except as set forth in Section 7.3 of the Plan), confirmation of the Plan and determining the treatment of claims against and equity interests in the Mirant Americas Generation Debtors under the proposed Plan;

- the holders of unsecured claims against the Consolidated Mirant Debtors will receive a pro rata share of 100% of the shares of New Mirant common stock, except for (1) certain shares to be issued to the holders of certain claims against Mirant Americas Generation Debtors, as described below and (2) the shares reserved for issuance pursuant to the New Mirant employee stock programs;

- a single intermediate holding company, Mirant North America, LLC (Mirant North America), will be formed under Mirant Americas Generation and will directly or indirectly own 100% of the equity interests in the operating subsidiaries of Mirant Americas Generation, including Mirant Mid-Atlantic;

- the unsecured claims against the Mirant Americas Generation Debtors will be paid in full through (1) the issuance to general unsecured creditors and holders of the Mirant Americas Generation revolving credit facilities and senior notes maturing in 2006 and 2008 of (a) new debt securities of Mirant North America or, at the option of the Mirant Debtors, cash proceeds from third-party financing transactions, in an amount equal to 90% of the full amount owed to such creditors (as determined by the Bankruptcy Court) and (b) common stock in New Mirant having a value equal to 10% of such amount owed; and (2) the reinstatement of Mirant Americas Generation senior notes maturing in 2011, 2021 and 2031;

- allowed convenience claims (unsecured claims up to $25,000 in amount) shall receive a single cash payment equal to the claim amount;

- the intercompany claims between and among the Consolidated Mirant Debtors and the Mirant Americas Generation Debtors will be resolved as part of a global settlement under the proposed Plan whereby intercompany claims will not receive a distribution under the proposed Plan;

- the prospective working capital requirements of Mirant Americas Generation and its subsidiaries are expected to be met with a new senior secured revolving credit facility of Mirant North America in the amount of $750 million to $1 billion. In addition, the consolidated business will have approximately $4.36 billion of debt (as compared to approximately $8.63 billion of debt at the commencement of the Chapter 11 cases) comprised of: (1) $1.14 billion of debt obligations associated with non-debtor international subsidiaries of Mirant; (2) $169 million of miscellaneous domestic indebtedness including, in particular, $109 million of West Georgia secured notes; (3) $1.7 billion of reinstated debt at Mirant Americas Generation; and (4) $1.35 billion of new debt incurred by Mirant North America in partial satisfaction of certain existing Mirant Americas Generation debt which amount does

not include the Mirant Mid-Atlantic operating leases related to Morgantown Station and Dickerson Station;

- to help support the feasibility of the proposed Plan with respect to the Mirant Americas Generation Debtors, Mirant shall contribute value to Mirant North America, including Mirant s trading and marketing business (subject to an obligation to return a portion of the embedded cash collateral in the trading and marketing business to Mirant provided that, under certain circumstances, the Mirant Debtors may elect to satisfy this obligation by transferring $250 million to Mirant Americas, Inc. (Mirant Americas) from Mirant North America), Mirant Peaker, LLC (Mirant Peaker), Mirant Potomac River, LLC (Mirant Potomac River) and Mirant Zeeland, LLC and commitments to make prospective capital contributions of $150 million to Mirant Americas Generation (for refinancing) and, under certain circumstances, up to $265 million to Mirant North America (for sulfur dioxide (SO2) capital expenditures). Under the proposed Plan, Mirant Peaker and Mirant Potomac River will become subsidiaries of Mirant Mid-Atlantic;

- the disputes regarding the Mirant Debtors ad valorem real property taxes for the Bowline and Lovett facilities will be settled and resolved on terms that permit the feasible operation of these assets, subject to market conditions, or the Mirant Debtors that own such assets will remain in Chapter 11 until such matters are resolved by settlement or through litigation;

- substantially all of the assets of Mirant will be transferred to New Mirant, which will serve as the corporate parent of the Mirant Debtors business enterprise on and after the effective date of the proposed Plan; similarly, the Mirant trading and marketing business of Mirant Americas Energy Marketing, L.P. (Mirant Americas Energy Marketing) shall be substantially transferred to Mirant Energy Trading, LLC (a subsidiary of Mirant North America); and

- the outstanding common stock in Mirant Corporation will be cancelled and the holders thereof will receive any surplus value after creditors are paid in full, plus the right to receive a pro rata share of warrants issued by New Mirant if they vote to accept the proposed Plan.

The Mirant Americas Generation Creditor Committee together with Wells Fargo Bank, National Association and the Ad Hoc Committee of Bondholders of Mirant Americas Generation, have objected to the reinstatement of the Mirant Americas Generation senior notes maturing in 2011, 2021 and 2031 and filed a motion requesting an order determining that these long-term noteholders are impaired under the Plan and thus entitled to vote on the Plan. The Bankruptcy Court issued an opinion on May 24, 2005 denying their motion and finding that the treatment under the Plan of the long-term notes did not impair the holders thereof and, therefore, the holders of the Mirant Americas Generation long-term notes may not vote on the Plan. The Committees have sought leave from the United States District Court for the Northern District of Texas to appeal the Bankruptcy Court s order, which is not a final order that is appealable as a matter of right.

At present, the proposed Plan has not been approved by any of the Committees established by the office of the United States Trustee in Mirant s bankruptcy proceedings that represent the unsecured creditors of Mirant, the unsecured creditors of Mirant Americas Generation and the equity security holders of Mirant (the Statutory Committees). As such, the Mirant Debtors anticipate that negotiations will continue between the Mirant Debtors and each of the Statutory Committees. Negotiations with the Statutory Committees, whether or not successful, could lead to material changes to certain components of the proposed Plan.

Since April 2005, the Mirant Debtors, the Statutory Committees and representatives of certain other interests have been party to proceedings before the Bankruptcy Court with respect to the valuation of the Mirant Debtors. Pursuant to a letter dated June 30, 2005, as subsequently amended, the Bankruptcy Court instructed the Mirant Debtors and their financial advisors, The Blackstone Group, to make certain modifications to the business plan of the Mirant Debtors and the valuation report prepared by The Blackstone Group. The Bankruptcy Court indicated that it intends to use the modified business plan and valuation report to generate an enterprise value for the Mirant Debtors which can be used for purposes of confirmation of a plan of reorganization for the Mirant Debtors. Absent a settlement among the Mirant Debtors, the Statutory Committees and the other parties, the Mirant Debtors do not expect that they and The Blackstone Group will complete the modifications ordered by the Bankruptcy Court before the end of September 2005.

At this time, it is not possible to accurately predict if, or when, the proposed Plan will be approved by the creditors and security holders and confirmed by the Bankruptcy Court, or if, and when, some or all of the Mirant Debtors may emerge from bankruptcy protection under Chapter 11.

Accounting for Reorganization

The accompanying unaudited condensed consolidated financial statements of Mirant have been prepared in accordance with Statement of Position 90-7, *Financial Reporting by Entities in Reorganization Under the Bankruptcy Code*, and on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. However, as a result of the bankruptcy proceedings, such realization of assets and satisfaction of liabilities are subject to a significant number of uncertainties. Mirant s unaudited condensed consolidated financial statements do not reflect adjustments that might be required if Mirant (or each of the Mirant Debtors) is unable to continue as a going concern.

Unaudited condensed combined financial statements of the Mirant Debtors and Non-Debtors are set forth below. Mirant Debtors include all entities that filed for protection from creditors in 2003. Non-Debtors include the Company s businesses in the Caribbean and Philippines that are generally not affected by the bankruptcy proceedings, as well as certain non wholly-owned subsidiaries and Mirant s Canadian subsidiaries which emerged in May 2004 from creditor protection under the Companies Creditors Arrangement Act in Canada.

Unaudited Condensed Combined Statement of Operations Data
For the Three Months Ended June 30, 2005
(in millions)

	Debtors	Non-Debtors	Consolidation/ Elimination Entries	Consolidated
Operating revenues	$ 657	$ 314	$ (2)	$ 969
Cost of fuel, electricity and other products	397	116	(1)	512
Operating expenses	265	104	(1)	368
Operating (loss) income	(5)	94		89
Other income (expense), net	14	(19)	(19)	(24)
Reorganization items, net	31	1	1	33
(Benefit) provision for income taxes	(12)	47		35
Minority interest		7		7
(Loss) income from continuing operations	(10)	20	(20)	(10)
Income from discontinued operations, net of taxes				
Net (loss) income	$ (10)	$ 20	$ (20)	$ (10)

Unaudited Condensed Combined Statement of Operations Data
For the Six Months Ended June 30, 2005
(in millions)

	Debtors	Non-Debtors	Consolidation/ Elimination Entries	Consolidated
Operating revenues	$ 1,232	$ 590	$ (7)	$ 1,815
Cost of fuel, electricity and other products	771	198	(6)	963
Operating expenses	476	198	(1)	673
Operating (loss) income	(15)	194		179
Other income (expense), net	61	(35)	(69)	(43)
Reorganization items, net	93	(1)	2	94
(Benefit) provision for income taxes	(44)	76		32
Minority interest		13		13
(Loss) income from continuing operations	(3)	71	(71)	(3)
Income from discontinued operations, net of taxes	4			4
Net income (loss)	$ 1	$ 71	$ (71)	$ 1

Unaudited Condensed Combined Balance Sheet Data
June 30, 2005
(in millions)

	Debtors	Non-Debtors	Consolidation/ Elimination Entries	Consolidated
Current assets	$ 2,780	$ 1,317	$ (233)	$ 3,864
Intercompany receivables	694	595	(1,289)	
Property, plant and equipment, net	3,955	2,157		6,112
Intangible assets, net	258	13		271
Investments	2,187	240	(2,171)	256
Other	367	509	1	877
Total assets	$ 10,241	$ 4,831	$ (3,692)	$ 11,380
Liabilities not subject to compromise:				
Current liabilities	$ 934	$ 500	$ (1)	$ 1,433
Intercompany payables	504	694	(1,198)	
Other noncurrent liabilities	392	458		850
Long-term debt	185	838		1,023
Liabilities subject to compromise	9,528		(322)	9,206
Minority interest		170		170
Stockholders (deficit) equity	(1,302)	2,171	(2,171)	(1,302)
Total liabilities and stockholders deficit	$ 10,241	$ 4,831	$ (3,692)	$ 11,380

Unaudited Condensed Combined Statement of Cash Flows Data
For the Six Months Ended June 30, 2005
(in millions)

	Debtors	Non-Debtors	Consolidation/ Elimination Entries	Consolidated
Net cash provided by (used in):				
Operating activities	$ (68)	$ 178	$	$ 110
Investing activities	(62)	35	(1)	(28)
Financing activities	11	(83)		(72)
Net (decrease) increase in cash and cash equivalents	(119)	130	(1)	10
Cash and cash equivalents, beginning of period	953	532		1,485
Cash and cash equivalents, end of period	$ 834	$ 662	$ (1)	$ 1,495
Cash paid for reorganization items	$ 76	$ 2	$	$ 78

Liabilities Subject to Compromise

The amounts subject to compromise at June 30, 2005 and December 31, 2004, consisted of the following items (in millions):

	June 30, 2005	December 31, 2004
Items, absent the bankruptcy proceedings, that would have been considered current:		
Accounts payable and accrued liabilities	$ 1,039	$ 1,028
Current portion of long-term debt	3,627	3,112
Price risk management liabilities	43	80
Items, absent the bankruptcy proceedings, that would have been considered noncurrent:		
Long-term debt	3,475	3,974
Price risk management liabilities	459	460
Note payable to Mirant Trust I	356	356
Other noncurrent liabilities	207	207
Total	$ 9,206	$ 9,217

The price risk management liabilities reflect the fair values of power purchase agreements (PPAs) with the Potomac Electric Power Company (PEPCO). The PPAs are for a total capacity of 735 MW and expire over periods through 2021. See PEPCO Litigation later in this section for further discussion.

On June 28, 2005, the Bankruptcy Court approved a settlement agreement among Mirant, Mirant Americas Energy Marketing, Perryville Energy Partners, LLC (Perryville) and Perryville Energy Holdings, LLC that resolves the Perryville parties claims against the Mirant Debtors and Mirant Americas claim against Perryville. The settlement agreement had previously been approved by the bankruptcy court overseeing the bankruptcy proceedings of the Perryville parties. Under the settlement, Perryville received an allowed unsecured claim of $207 million against Mirant Americas Energy Marketing, an allowed unsecured guaranty claim against Mirant of $177 million, and an allowed claim against Mirant Americas of $99 million, with the maximum amount of its recovery on these claims being limited to the amount of the claim against Mirant Americas Energy Marketing.

Mirant Americas received an allowed claim against Perryville of $99 million. On June 30, 2005, Perryville sold its generating facility to a subsidiary of Entergy Corp. Pursuant to the terms of the settlement, this sale resulted in the offset of Mirant Americas claim in Perryville s bankruptcy proceeding against the claims held by Perryville in the Mirant bankruptcy proceedings as of July 20, 2005, and, thus, Perryville s claim against Mirant Americas was eliminated and its claims against Mirant Americas Energy Marketing and Mirant were reduced to $108 million. As of June 30, 2005, $108 million is included in liabilities subject to compromise in the unaudited condensed consolidated balance sheets.

Interest Expense

The Mirant Debtors have discontinued recording interest on liabilities subject to compromise. Contractual interest on liabilities subject to compromise in excess of reported interest was approximately $124 million and $248 million for the three and six months ended June 30, 2005, respectively, exclusive of any potential amounts attributable to compound interest, default interest and additional interest relating to Mirant Americas Generation s failure to meet certain reporting requirements. Contractual interest on liabilities subject to compromise in excess of reported interest for the period from the Petition Date through June 30, 2005 is approximately $936 million, exclusive of any potential amounts attributable to compound interest, default interest in the amount of approximately $96 million and additional interest relating to Mirant Americas Generation s failure to meet certain reporting requirements in the amount of approximately $23 million. This amount includes approximately $285 million of interest related to Mirant Americas Generation senior notes maturing in 2011, 2021 and 2031, which would be reinstated under the proposed Plan, excluding additional interest relating to Mirant Americas Generation s failure to meet certain reporting requirements in the amount of approximately $16 million.

Reorganization Items

Reorganization items, net represents expense or income amounts that were recorded in the consolidated financial statements as a result of the bankruptcy proceedings primarily related to estimated claims and losses on rejected and amended contracts and professional fees for accounting and legal services. For the three and six months ended June 30, 2005, the following represent the significant items within this category (in millions):

	Three Months Ended June 30,		**Six Months Ended June 30,**	
	2005	**2004**	**2005**	**2004**
Estimated claims	$ (5)	$ 65	$ 25	$ 101
Professional fees and administrative expense	47	24	84	47
Interest income and other gains, net	(9)	(16)	(15)	(18)
Total	$ 33	$ 73	$ 94	$ 130

For the three and six months ended June 30, 2005, estimated claims include a $32 million gain related to the California settlement. See Note F to our unaudited condensed consolidated financial statements contained elsewhere in this report for further discussion.

PEPCO Litigation

In 2000, Mirant purchased certain power generating assets and certain other assets from PEPCO, including certain power purchase agreements (PPAs). Under the terms of the Asset Purchase and Sale Agreement (the APSA) Mirant and PEPCO entered into a contractual arrangement (the Back-to-Back Agreement) with respect to certain PPAs, including PEPCO s long-term PPAs with Ohio Edison Company (Ohio Edison) and Panda-Brandywine L.P. (Panda), under which (1) PEPCO agreed to resell to Mirant all capacity, energy, ancillary services and other benefits to which it is entitled under those agreements; and (2) Mirant agreed to pay PEPCO each month all amounts due from PEPCO to the sellers under those agreements for the immediately preceding month associated with such capacity, energy, ancillary services and other benefits. The Panda and Ohio Edison PPAs run until 2021 and 2005 respectively. Under the Back-to-Back Agreement, Mirant is obligated to purchase power from PEPCO at prices that are significantly higher than existing market prices for power.

Back-to-Back Agreement Litigation: On August 28, 2003, the Mirant Debtors filed a motion in the bankruptcy proceedings to reject the Back-to-Back Agreement (the First Rejection Motion), along with an adversary proceeding to enjoin PEPCO and the FERC from taking certain actions against the Mirant Debtors (the Injunction Litigation). On October 9, 2003, the United States District Court for the Northern District of Texas entered an order that had the effect of transferring to that court from the Bankruptcy Court the First Rejection Motion and the Injunction Litigation. In December 2003, the district court denied the First Rejection Motion and, thereafter, dismissed the Injunction Litigation. The district court ruled that the Federal Power Act preempts the Bankruptcy Code and that a bankruptcy court cannot affect a matter within the FERC s jurisdiction under the Federal Power Act, including the rejection of a wholesale power purchase agreement regulated by the FERC.

The Mirant Debtors appealed the district court s orders to the United States Court of Appeals for the Fifth Circuit (the Fifth Circuit). The Fifth Circuit reversed the district court s decision, holding that the Bankruptcy Code authorizes a district court (or bankruptcy court) to reject a contract for the sale of electricity that is subject to the FERC s regulation under the Federal Power Act as part of a bankruptcy proceeding and that the Federal Power Act does not preempt that authority. The Fifth Circuit remanded the proceeding to the district court for further action on that motion. The Fifth Circuit indicated that on remand the district court could consider applying a more rigorous standard than the business judgment standard typically applicable to contract rejection decisions by debtors in bankruptcy, which more rigorous standard would take into account the public interest in the transmission and sale of electricity.

On December 9, 2004, the district court held that the Back-to-Back Agreement was a part of and not severable from, and therefore could not be rejected apart from, the APSA. The district court also noted that if the Fifth Circuit overturned the district court s ruling with respect to severability, the Back-to-Back Agreement should be rejected only if Mirant can prove that the Back-to-Back Agreement burdens the bankrupt estates; that, after scrutiny and giving significant weight to the comments of the FERC relative to the effect of rejection on the public interest, the equities balance in favor of rejecting the Back-to-Back Agreement; and that rejection of the Back-to-Back Agreement would further the Chapter 11 goal of permitting the successful rehabilitation of the Mirant Debtors. The Mirant Debtors have appealed the district court s December 9, 2004 decision to the Fifth Circuit and requested that the Fifth Circuit hear this appeal on an expedited basis. On March 8, 2005, the Fifth Circuit denied Mirant s request to have the appeal expedited.

On January 21, 2005, the Mirant Debtors filed a motion in the bankruptcy proceedings to reject the APSA, including the Back-to-Back Agreement but not including other agreements entered into between Mirant and its subsidiaries and PEPCO under the terms of the APSA (the Second Rejection Motion). On February 10, 2005, PEPCO filed a motion requesting the district court to assert jurisdiction over and rule upon the Second Rejection Motion rather than having the Bankruptcy Court rule on that motion. On March 1, 2005, the district court ruled that it would withdraw the reference to the Bankruptcy Court of the Second Rejection Motion and would itself hear that motion.

Suspension of PEPCO Back-to-Back Payments: On December 9, 2004, in an effort to halt further out-of-market payments under the Back-to-Back Agreement while awaiting resolution of issues related to the potential rejection of the Back-to-Back Agreement (but prior to notice of entry of the district court s order of December 9, 2004), Mirant filed a notice in the Bankruptcy Court stating that Mirant was suspending further payments to PEPCO under the Back-to-Back Agreement absent further order of the court (the Suspension Notice). On December 10, 2004, in response to the Suspension Notice, PEPCO filed a motion in the district court seeking a temporary restraining order and injunctive relief to require Mirant to perform under the Back-to-Back Agreement (the Injunctive Relief Motion). On December 13, 2004, the district court issued an order referring the Injunctive Relief Motion to the Bankruptcy Court. On December 21, 2004, the Bankruptcy Court issued an order denying the temporary restraining order sought by PEPCO.

On December 14, 2004, PEPCO filed the following additional litigation: (1) a motion seeking relief from the automatic stay provision of Bankruptcy Code section 362(a) to permit PEPCO to terminate performance under the APSA (the Lift Stay Motion); (2) a motion to compel the Mirant Debtors to pay, as administrative expenses, payments that had been suspended under the Back-to-Back Agreement (the Administrative Expense Motion); and (3) an adversary proceeding seeking to compel the Mirant Debtors to make payments under the Back-to-Back Agreement (the PEPCO Lawsuit). On December 16, 2004, PEPCO filed a motion requesting the district court to withdraw the reference to the Bankruptcy Court with respect to the litigation filed by PEPCO on December 14, 2004, as well as the Injunctive Relief Motion (the Second Withdrawal Motion). On January 4, 2005, the district court denied the Second Withdrawal Motion in its entirety.

On January 19, 2005, the Bankruptcy Court entered an order embodying a ruling made orally by the court on January 14, 2005, in which it denied the Lift Stay Motion and the Administrative Expense Motion, but required the Mirant Debtors to pay amounts due under the Back-to-Back Agreement in January 2005 and thereafter until either (1) the Mirant Debtors filed a motion to reject the APSA, (2) the Fifth Circuit issued an order reversing the district court s order of December 9, 2004 denying the motion to reject the Back-to-Back Agreement, or (3) the Mirant Debtors were successful in having the obligations under the Back-to-Back Agreement recharacterized as debt obligations. PEPCO filed an appeal of the Bankruptcy Court s January 19, 2005 order. On January 21, 2005, the Mirant Debtors filed the Second Rejection Motion.

On March 1, 2005, the district court withdrew the reference to the Bankruptcy Court of the Second Rejection Motion and the Administrative Expense Motion, ordered the Mirant Debtors to pay PEPCO all past-due, unpaid obligations under the Back-to-Back Agreement by March 10, 2005 and dismissed as moot PEPCO s appeal of the January 19, 2005 order denying the Administrative Expense Motion. The Mirant Debtors on March 4, 2005 filed a motion requesting that the district court reconsider its order of March 1, 2005 or alternatively to stay that order while the Mirant Debtors appeal it to the Fifth Circuit. On March 7, 2005, the district court modified the March 1, 2005 order to require PEPCO to file a response to the Mirant Debtors motion for reconsideration by March 14, 2005 and to delay until March 18, 2005, the date by which the Mirant Debtors were to pay past-due, unpaid obligations under the Back-to-Back Agreement.

On March 16, 2005 the Mirant Debtors filed a petition for writ of mandamus with the Fifth Circuit asking it to order the district court to vacate the March 1, 2005 order, as modified, and to reinstate PEPCO s appeal of the Bankruptcy Court s order of January 19, 2005 denying the Administrative Expense Motion. The petition asked the Fifth Circuit alternatively to stay the March 1, 2005 order until the Mirant Debtors appeal of that order was resolved. Also on March 16, 2005 the district court further modified its order of March 1, 2005 to clarify that the amounts to be paid by the Mirant Debtors by March 18, 2005 did not include any amounts that became due prior to the filing of the Chapter 11 cases on July 14, 2003. On March 16, 2005, the Mirant Debtors also appealed the district court s March 1, 2005 order, as modified, to the Fifth Circuit. On March 17, 2005, the Fifth Circuit issued a temporary stay of the March 1, 2005 order, as modified. On April 11, 2005, the Fifth Circuit vacated the temporary stay entered on March 17, 2005, denied the petition for writ of mandamus and denied the Mirant Debtors request for a stay pending appeal. In its order, the Fifth Circuit concluded that the Mirant Debtors challenges to the district court s order of March 1, 2005, as modified, could be remedied in their pending appeals and that the Mirant Debtors had not shown they would suffer irreparable harm if the order was not stayed pending appeal. On April 20, 2005, the district court entered an order directing the Mirant Debtors to pay PEPCO by April 25, 2005 all unpaid amounts due under the Back-to-Back Agreement accruing since the Petition Date to the extent they had not already done so, and to continue performance of all obligations under the agreement until further order of the district court. The Mirant Debtors have paid all amounts due under the Back-to-Back Agreement accruing since the Petition Date.

Potential Adjustment Related to Panda Power Purchase Agreement: At the time of the acquisition of the Mirant Mid-Atlantic assets from PEPCO, Mirant also entered into an agreement with PEPCO that, as subsequently modified, provided that the price paid by Mirant for its December 2000 acquisition of PEPCO assets would be adjusted if by April 8, 2005 a binding court order had been entered finding that the Back-to-Back Agreement violated PEPCO s power purchase agreement with Panda (the Panda PPA) as a prohibited assignment, transfer or delegation of the Panda PPA or because it effected a prohibited delegation or transfer of rights, duties or obligations under the Panda PPA that was not severable from the rest of the Back-to-Back Agreement. Panda initiated legal proceedings in 2000 asserting that the Back-to-Back Agreement violated provisions in the Panda PPA prohibiting PEPCO from assigning the Panda PPA or delegating its duties under the Panda PPA to a third party without Panda s prior written consent. On June 10, 2003, the Maryland Court of Appeals, Maryland s highest court, ruled that the assignment of certain rights and delegation of certain duties by PEPCO to Mirant did violate the non-assignment provision of the Panda PPA and was unenforceable. The court, however, left open the issues whether the provisions found to violate the Panda PPA could be severed and the rest of the Back-to-Back Agreement enforced and whether Panda s refusal to consent to the assignment of the Panda PPA by PEPCO to Mirant was unreasonable and violated the Panda PPA. The Company believes that the June 10, 2003 decision by the Maryland Court of Appeals does not suffice to trigger a purchase price adjustment under the agreement between Mirant and PEPCO. If that court order were found to have triggered the purchase price adjustment, the agreement between Mirant and PEPCO provides that the amount of the adjustment would be negotiated in good faith by the parties or determined by binding arbitration so as to compensate PEPCO for the termination of the benefit of the Back-to-Back Agreement while also holding Mirant economically indifferent from such court order.

PEPCO Avoidance Action. On July 13, 2005, Mirant and several of its subsidiaries, including Mirant Mid-Atlantic and Mirant Americas Generation, filed a lawsuit against PEPCO before the Bankruptcy Court to avoid and recover fraudulent transfers under 11 U.S.C. §§ 544 and 550 and applicable state law in connection with the acquisition of PEPCO s assets by Mirant in December 2000 and disallow PEPCO s proofs of claim. The suit asserts that Mirant did not receive fair value in return for the purchase price paid for the PEPCO assets and that the acquisition occurred at a time when Mirant was either insolvent or was rendered insolvent as a result of the transaction. The likely outcome of this proceeding cannot now be determined, and the Company cannot estimate what recovery, if any, it may obtain in this action.

C. Assets Held for Sale

The Company has reclassified amounts for prior periods in the financial statements to report separately, as discontinued operations, the revenues and expenses of components of the Company that have been disposed of or are expected to be disposed of in the next year. The components in assets held for sale are discussed below.

Coyote Springs 2: Loss from discontinued operations for the six months ended June 30, 2004 reflects the Company s 50% undivided interest in the 241 MW combined cycle natural gas fired Coyote Springs 2 generating facility in Oregon (Coyote Springs 2). In October 2004, Mirant Oregon LLC (Mirant Oregon), a wholly-owned subsidiary of Mirant, entered into an agreement to sell its interest in Coyote Springs 2 to Avista Energy, subject to Bankruptcy Court and regulatory approvals. The Bankruptcy Court and regulatory approvals occurred in the fourth quarter of 2004. The Company completed the sale of Coyote Springs 2 for $63 million in January 2005 after conducting an auction in which Mirant Oregon solicited higher bids.

Wrightsville: Income from discontinued operations for the six months ended June 30, 2005 includes the 548 MW Wrightsville generating facility in Arkansas (Wrightsville). In February 2005, certain indirect subsidiaries of the Company entered into an agreement to sell the Wrightsville generating facility to Arkansas Electric Cooperative Corporation, subject to Bankruptcy Court and regulatory approvals. The Bankruptcy Court approval occurred in the second quarter of 2005. Upon receipt of regulatory approvals, the Company expects to complete the sale of Wrightsville in late 2005.

A summary of the operating results for these discontinued operations for the three and six months ended June 30, 2005 and 2004 follows (in millions):

	Three Months Ended June 30, 2005	2004	Six Months Ended June 30, 2005	2004
Operating revenues	$ 2	$	$ 2	$
Operating expenses, including other (expense) income, net		(52)*	(1)	(54)
Income (loss) before reorganization items	2	(52)	1	(54)
Reorganization items (benefit), net	2		(3)	
Net income (loss)	$	$ (52)	$ 4	$ (54)

* For the three months ended June 30, 2004, an impairment charge of approximately $48 million was recorded related to Coyote Springs 2.

Current assets and liabilities held for sale include discontinued operations and the following assets that the Company expects to dispose of in the next year:

Wyandotte: In May 2005, the Company entered into an agreement to sell most of the equipment for Wyandotte, LLC (Wyandotte), a 560 MW suspended construction project in Michigan. In the second quarter of 2005, the Company recognized a loss on sale of assets, net of $21 million. Also in the second quarter of 2005, the Company recognized an impairment loss of $7 million for the remaining assets associated with the project. Both the loss on sale of assets and the impairment loss are included in operating expenses for the three and six months ended June 30, 2005 in the unaudited condensed consolidated statements of operations. After receiving Bankruptcy Court approval in June 2005, the Company completed the sale and received net proceeds of $23 million in July 2005.

Mint Farm: The Company expects to sell its interest in Mint Farm Generation LLC (Mint Farm), a 298 MW suspended construction project in Longview, Washington. In the second quarter of 2005, the Company recognized a loss on sale of assets, net of $7 million, which is included in operating expenses for the three and six months ended June 30, 2005 in the unaudited condensed consolidated statements of operations. Subject to Bankruptcy Court approval, the Company expects to complete the sale in late 2005 after conducting an auction soliciting higher bids.

The table below presents the components of the balance sheet accounts classified as current assets held for sale as of June 30, 2005 and December 31, 2004 (in millions):

	June 30, 2005	December 31, 2004
Current Assets:		
Current assets	$	$ 2
Property, plant and equipment, net	124	220
Total current assets held for sale	$ 124	$ 222

The following tables present the effects of the reclassifications in the previously presented unaudited condensed consolidated statements of operations for the three and six months ended June 30, 2004 and balance sheet as of December 31, 2004 (in millions).

	Three Months Ended June 30, 2004		
	As Previously Presented	Reclassifications	As Presented
Operating Expenses:			
Operations and maintenance	$ 251	$ (2)	$ 249
Depreciation and amortization	77	(2)	75
Impairment losses and restructuring charges	53	(48)	5
Total operating expenses	381	(52)	329
Loss from discontinued operations, net of taxes	$	$ (52)	$ (52)

	Six Months Ended June 30, 2004		
	As Previously Presented	Reclassifications	As Presented
Operating Expenses:			
Operations and maintenance	$ 498	$ (3)	$ 495
Depreciation and amortization	157	(3)	154
Impairment losses and restructuring charges	55	(48)	7
Total operating expenses	710	(54)	656
Loss from discontinued operations, net of taxes	$	$ (54)	$ (54)

	As of December 31, 2004		
	As Previously Presented	Reclassifications	As Presented
Assets:			
Receivables, net	$ 768	$ 3	$ 771
Inventories	351	2	353
Assets held for sale	161	61	222
Property, plant and equipment, net	6,245	(75)	6,170
Other noncurrent assets	295	9	304
Liabilities:			
Accrued taxes and other	180	(6)	174
Liabilities subject to compromise	$ 9,211	$ 6	$ 9,217

D. Price Risk Management Assets and Liabilities

The fair values of Mirant s price risk management assets and liabilities, net of credit reserves, as of June 30, 2005 are included in the following table (in millions):

	Net Price Risk Management Assets/(Liabilities)				
	Assets		Liabilities		Net Value at
	Current	Noncurrent	Current	Noncurrent	June 30, 2005
Electricity	$ 168	$ 108	$ (304)	$ (81)	$ (109)
Natural Gas	80	17	(70)	(13)	14
Crude Oil	60		(19)		41
Coal	20	21			41
Other	20		(2)		18
Total	$ 348	$ 146	$ (395)	$ (94)	$ 5

Of the $5 million net value asset at June 30, 2005, a net price risk management liability of $50 million relates to the remainder of 2005, a $5 million net price risk management asset relates to 2006 and a $50 million net price risk management asset relates to periods thereafter.

The volumetric weighted average maturity, or weighted average tenor, of the price risk management portfolio at June 30, 2005, was approximately 8 months. The net notional amount of the price risk management assets and liabilities at June 30, 2005, was a net short position of approximately 6 million equivalent megawatt-hours (MWh). This decrease from a short position of approximately 17 million equivalent MWh at December 31, 2004 was primarily due to the inclusion of certain coal contracts at June 30, 2005.

During the second quarter of 2005, the Company was required to fair value certain of its coal contracts that were historically accounted for on an accrual basis pursuant to the normal purchases or normal sales exclusion of Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments*, (SFAS 133). Due to amendments to the terms of the coal contracts or the Company s inability to continue to assert expected physical receipt and consumption of coal volumes in the normal course of business, these coal contracts no longer qualified for the normal purchases or normal sales exclusion. In addition, another contract is reflected at fair value at June 30, 2005 because the Company determined that a change in accounting for the contract was required based on further review in the current period. The impacts related to this contract on the Company s financials statements for prior periods are immaterial. The fair value of these coal contracts, net of reserves, at June 30, 2005 approximated $41 million with a corresponding unrealized gain recorded in cost of fuel, electricity and other products in the unaudited condensed consolidated statements of operations for the three and six months ended June 30, 2005.

A coal mine that serves as a source for coal under one of these contracts is having various production issues, including a possible force majeure event. These issues have been considered in the calculation of fair value of the contract at June 30, 2005. If these production issues continue, the fair value of the contract may need to be adusted downward.

The following table represents the net fair value of Mirant s price risk management assets and liabilities by portfolio, net of credit reserves, as of June 30, 2005 (in millions):

Optimization	$ 10
Asset management	(39)
Legacy	34
Total	$ 5

E. Mirant Mid-Atlantic Operating Leases

In conjunction with the acquisition of certain assets from PEPCO, Mirant Mid-Atlantic has leased the Morgantown and the Dickerson baseload units and associated property for terms of 33.75 and 28.5 years, respectively. Mirant Mid-Atlantic has an option to renew the leases for a period that would cover up to 75% of the economic useful life of the facilities, as measured from the beginning of the original lease term through the end of the proposed renewal lease term. The Company is accounting for these leases as operating leases. Rent expenses associated with the Morgantown and Dickerson operating leases totaled approximately $26 million and $51 million for the three and six months ended June 30, 2005, respectively, and $24 million and $48 million for the same periods in 2004. While there is variability in the scheduled payment amounts over the lease term, the Company recognizes rental expense for these leases on a straight-line basis. As of June 30, 2005 and December 31, 2004, Mirant Mid-Atlantic had paid approximately $295 million and $285 million, respectively, of actual operating lease payments in accordance with the lease agreements in excess of rent expense recognized. A further $12 million of scheduled rent due on June 30, 2005 was funded through a draw made by the lease trustee on letters of credit arranged by the Company. In addition to the regularly-scheduled rent payments, Mirant Mid-Atlantic paid an additional $6 million and $11 million as of June 30, 2005 and December 31, 2004, respectively, as required by the lease agreements.

As of June 30, 2005, the total notional minimum lease payments for the remaining term of the leases aggregated approximately $2.4 billion and the aggregate termination value for the leases was approximately $1.4 billion and generally decreases over time. Mirant Mid-Atlantic leases the Morgantown and the Dickerson baseload units from third party owner lessors that purchased the baseload units from PEPCO. These owner lessors each own the undivided interests in these baseload generating facilities. The subsidiaries of the institutional investors who hold the membership interests in the owner lessors are called owner participants. Equity funding by the owner participants plus transaction expenses paid by the owner participants totaled $299 million. The issuance and sale of pass through certificates raised the remaining $1.2 billion needed for the owner lessors to acquire the undivided interests.

The pass through certificates are not direct obligations of Mirant Mid-Atlantic. Each pass through certificate represents a fractional undivided interest in one of three pass through trusts formed pursuant to three separate pass through trust agreements between Mirant Mid-Atlantic and State Street Bank and Trust Company of Connecticut, National Association, as pass through trustee. The property of the pass through trusts consists of lessor notes. The lessor notes issued by an owner lessor are secured by that owner lessor s undivided interest in the lease facilities and its rights under the related lease and other financing documents.

The operative documents relating to the leveraged lease contain certain covenants that restrict Mirant Mid-Atlantic and its designated subsidiaries which term includes Mirant Chalk Point, LLC (Mirant Chalk Point), Mirant Peaker and Mirant Potomac River including the following:

Restricted payments. Mirant Mid-Atlantic cannot make any of the following restricted payments:

- distributions in respect of equity interests in Mirant Mid-Atlantic (in cash, property, securities or obligations other than additional equity interests of the same type);

- payments or distributions on account of payments of interest, set apart money for a sinking or analogous fund for, or purchase or redeem any portion of, any equity interest in Mirant Mid-Atlantic or of any warrants, options or other rights to acquire any such equity interest (or make payments to any person such as phantom stock payments, where the amount of the payment is calculated with reference to its fair market or equity value); or

- payments on or with respect to the purchase, redemption, defeasance or other acquisition or retirement for value of any subordinated indebtedness;

unless, at the time of the restricted payment, each of the following conditions is satisfied:

- Mirant Mid-Atlantic s fixed charge coverage ratio for the most recently ended period of four full fiscal quarters equals at least:

(1) 1.7 to 1.0; or

(2) 1.6 to 1.0, 1.45 to 1.0, 1.3 to 1.0 or 1.2 to 1.0 if, as of the last day of the most recently completed fiscal quarter, Mirant Mid-Atlantic and its designated subsidiaries have entered into power sales agreements (meeting certain criteria, including investment grade ratings criteria) covering, in the aggregate, at least 25%, 50%, 75% or 100%, respectively, of the projected total consolidated operating revenue for the consecutive period of eight full fiscal quarters following that date; and

- The projected fixed charge coverage ratio for Mirant Mid-Atlantic (determined on a pro forma basis after giving effect to any such dividend) for each of the two following periods of four fiscal quarters commencing with the fiscal quarter in which the restricted payment is proposed to be made equals at least:

(1) 1.7 to 1.0; or

(2) 1.6 to 1.0, 1.45 to 1.0, 1.3 to 1.0 or 1.2 to 1.0, if, as of the last day of the most recently completed fiscal quarter, Mirant Mid-Atlantic and its designated subsidiaries have entered into power sales agreements (meeting certain criteria, including investment grade ratings criteria) covering, in the aggregate, at least 25%, 50%, 75% or 100%, respectively, of the projected total consolidated operating revenue for the consecutive period of eight full fiscal quarters following that date; and

- Before and immediately after the making of the distribution, no significant lease default or event of default has occurred and is continuing.

In accordance with the terms of the leases, Mirant Mid-Atlantic calculates the projected fixed charge coverage ratio based on projections prepared in good faith based upon assumptions consistent in all material respects with the relevant contracts and agreements, historical operations and Mirant Mid-Atlantic s good faith projections of future revenue and projections of operating and maintenance expenses in light of then existing or reasonably expected regulatory and market environments in the markets in which the leased facilities or other assets owned by it will be operated.

Our ability to pay our obligations, and the ability of Mirant Americas Generation and, upon formation, Mirant North America to pay their obligations, may be adversely affected in the event that Mirant Mid-Atlantic is unable to make distributions to Mirant North America. See Management Discussion and Analysis Liquidity and Capital Resources for a discussion of the impact of the restricted payments test in the Mirant Mid-Atlantic leveraged leases.

Additional indebtedness. Neither Mirant Mid-Atlantic nor any of its subsidiaries (including any designated subsidiary) can incur or assume any indebtedness, except (1) Mirant Mid-Atlantic and any subsidiary (including any designated subsidiary) can incur:

- any indebtedness, if, after incurring such indebtedness, no lease default or lease event of default has occurred and both S&P and Moody s confirm the ratings of the pass through certificates prior to incurring the indebtedness. However, if either rating is below investment grade, the indebtedness cannot be incurred unless the fixed charge coverage ratio for the

previous four quarters and the projected fixed charge coverage ratios for the following eight fiscal quarters are each at least 2.5 to 1.0;

- any letters of credit, surety bonds or guarantees issued in the ordinary course of business;
- any indebtedness secured by a pre-existing lien on any assets acquired by Mirant Mid-Atlantic or a designated subsidiary, so long as the indebtedness has recourse only to those assets;
- any intercompany loans;
- any indebtedness incurred to finance capital expenditures made to comply with law or to finance required improvements to either of the leased facilities covered by the leveraged lease; or
- any indebtedness incurred by Mirant Mid-Atlantic and its subsidiaries (including any designated subsidiary) in an aggregate principal amount not to exceed $100 million (and with respect to any individual designated subsidiary, in an aggregate principal amount not to exceed $50 million).

and (2) Mirant Mid-Atlantic and any subsidiary other than a designated subsidiary can incur:

- any indebtedness incurred to refinance indebtedness secured by a pre-existing lien on acquired assets;
- any indebtedness guaranteed by a parent of Mirant Mid-Atlantic that has a credit rating of BBB/Baa2 or higher;
- any working capital indebtedness;
- any interest rate hedging transactions entered into in the ordinary course of business; or
- any subordinated indebtedness.

Merger and consolidation. Neither Mirant Mid-Atlantic nor any of its designated subsidiaries can consolidate or merge with or into any other entity or sell or otherwise transfer all or substantially all of its properties or assets to any person or entity except, among other conditions, that the resulting entity or transferee of assets is organized under the laws of the United States or any state, assumes the obligations of Mirant Mid-Atlantic or the designated subsidiary obligations and has a credit rating of BBB-/Baa3 after the merger or transfer.

Sale of assets. Mirant Mid-Atlantic cannot sell any of its assets other than certain limited permitted asset sales including sales of assets that do not exceed, in the aggregate, fifteen percent (15%) of the consolidated book value of Mirant Mid-Atlantic and its designated subsidiaries.

Liens. Mirant Mid-Atlantic cannot, and cannot permit any designated subsidiary to, create, incur, assume or otherwise suffer to exist any liens on its interest under a facility lease, other than certain limited permitted encumbrances.

Assignment and sublease. Without the consent of other parties to the operative documents, Mirant Mid-Atlantic cannot assign or sublease its interest under a facility lease unless certain requirements are met including the requirement that the assignee or its guarantor has a credit rating of at least BBB/Baa2.

Under the terms of the lease, Mirant Mid-Atlantic is responsible for the payment of rent to the indenture trustee, which in turn makes payments of principal and interest to the pass through trust and any remaining balance to the owner lessors for the benefit of the owner participants. Mirant Mid-Atlantic s lease obligations are not obligations of its parent, Mirant Americas Generation, or,

its indirect parent, Mirant, or any of its other affiliates. However, Mirant has arranged a guarantee and letter of credit to provide for the rent payment reserve required in connection with this lease transaction in the event that Mirant Mid-Atlantic is unable to pay its lease payment obligations.

Significant disputes have arisen between the Mirant Debtors, on the one hand, and the owner lessors and the indenture trustee for the Mirant Mid-Atlantic leveraged leases, on the other hand, regarding, among other things, whether or not the leveraged lease transactions constitute a lease (or leases) within the meaning of section 365 of the Bankruptcy Code, or instead evidence a financing or other arrangement. In April 2005, the Bankruptcy Court dismissed the recharacterization claim filed by the Mirant Debtors, ruling that, based upon the current posture of the Chapter 11 cases, a determination on the merits was not presently warranted. In its ruling, the Bankruptcy Court reserved the right to reconsider the merits of recharacterization in the event that facts and circumstances changed in a manner such that further consideration would be warranted.

At this time, the Mirant Debtors maintain that the leases are not true leases for bankruptcy purposes. However, based on the Bankruptcy Court s comments in its April 2005 ruling, the Mirant Debtors may determine to modify their proposed Plan (and related Disclosure Statement) to propose that the leases be assumed conditioned upon certain provisions in the leases including the limitations on restricted payments and the restrictions on the incurrence of indebtedness and liens being modified, stricken or determined to be unenforceable and certain alleged defaults determined as not requiring cure as a condition to assumption. In order to assume leases, a debtor-lessee must obtain bankruptcy court approval and, subject to certain exceptions set forth in the Bankruptcy Code, must cure any existing defaults under the applicable leases (unless such defaults are duly waived). It would be the Mirant Debtors objective that assumption would be approved at or before confirmation of the Plan, and that as part of the assumption or confirmation order, Mirant Mid-Atlantic would be relieved of the obligation to cure certain defaults and of the obligation to perform certain covenants. If it is not feasible for Mirant Mid-Atlantic to assume the leases because relief from certain defaults and/or covenants is not available, the two remaining alternatives are rejection and revisiting the issue of recharacterization. In the latter circumstance, if the Bankruptcy Court recharacterizes the leases as indebtedness, Mirant Mid-Atlantic may be required to re-evaluate the accounting for the leases. If, on the other hand, recharacterization is not sought or is not available, and/or Mirant Mid-Atlantic cannot or does not assume the leases, then the leases will be rejected. In that event, the owner lessors would be entitled to a return of the leased assets and would have a claim for damages, if any, arising from such rejection, subject to the limitation on allowed claims under section 502(b)(6) of the Bankruptcy Code applicable to leases of real property. Any claims arising on account of rejection would be subject to compromise in Mirant Mid-Atlantic s Chapter 11 case. The impact of any of these events would be reflected in the Company s consolidated financial statements if and when the events occur.

As a result of Mirant Mid-Atlantic s bankruptcy filing, a lease event of default has occurred under the leases. The leases provide that, upon a lease event of default, the owner lessors remedies include (1) terminating the leases and repossessing the leased assets, (2) selling their interests in the leased assets, (3) demanding payment by Mirant Mid-Atlantic of the excess, if any, of the termination value over the fair market sales value of the leased assets or the discounted fair market rental value of the leased assets and (4) demanding payment of the termination value mitigated by a sale of the leased assets for the account of Mirant Mid-Atlantic. The ability of the owner lessors to exercise their remedies under the leases is currently stayed as a result of Mirant Mid-Atlantic s Chapter 11 filing.

F. Litigation and Other Contingencies

The Company is involved in a number of significant legal proceedings. Some matters may be unresolved for several years. The Company cannot currently determine the outcome of the proceedings described below or the ultimate amount of potential losses and, therefore, has not made any material provision for such matters unless specifically noted below. Pursuant to SFAS No. 5, *Accounting for Contingencies*, management provides for estimated losses to the extent information becomes available indicating that losses are probable and that the amounts are reasonably estimable. Additional losses could have a material adverse effect on the Company s consolidated financial position, results of operations or cash flows.

Effect of Chapter 11 Proceedings

On July 14, 2003 and July 15, 2003 (the Petition Date), August 18, 2003, October 3, 2003 and November 18, 2003, the Mirant Debtors filed voluntary petitions for relief under Chapter 11 of the Bankruptcy Code. As of the Petition Date, most pending litigation (including some of the actions described below) is stayed, and absent further order of the Bankruptcy Court, no party, subject to certain exceptions, may take any action, again subject to certain exceptions, to recover on pre-petition claims against the Mirant Debtors. One exception to this stay of litigation is for an action or proceeding by a governmental agency to enforce its police or regulatory power. The claims asserted in litigation and proceedings to which the stay applies may be fully and finally resolved in connection with the administration of the bankruptcy proceedings and, to the extent not resolved, will need to be addressed in the Plan. On November 19, 2003, the Bankruptcy Court entered an order staying most litigation pending against current or former officers, directors and managers of the Mirant Debtors arising out of the performance of their duties and against certain potential indemnitees of the Mirant Debtors. The Bankruptcy Court took that action to avoid the risk that the continuation of such litigation would impede the Mirant Debtors ability to reorganize or would have a negative impact upon the assets of the Mirant Debtors. At this time, it is not possible to predict the outcome of the Chapter 11 proceedings or their effect on the business of the Mirant Debtors or outstanding legal proceedings. The Mirant Debtors intend to resolve as many of these claims as possible through the claims resolution process in the bankruptcy proceeding or the Plan.

California and Western Power Markets

FERC Refund Proceedings: On July 25, 2001, the FERC issued an order requiring proceedings (the FERC Refund Proceedings) to determine the amount of any refunds and amounts owed for sales made by market participants, including Mirant Americas Energy Marketing, to the California Independent System Operator (the CAISO) or the California Power Exchange (the Cal PX) from October 2, 2000 through June 20, 2001 (the Refund Period). Various parties have appealed these FERC orders to the United States Court of Appeals for the Ninth Circuit (the Ninth Circuit) seeking review of a number of issues, including changing the Refund Period to include periods prior to October 2, 2000 and expanding the sales of electricity subject to potential refund to include bilateral sales made to the California Department of Water Resources (the DWR) and other parties. Any such expansion of the Refund Period or the types of sales of electricity potentially subject to refund could significantly increase the refund exposure of Mirant Americas Energy Marketing in this proceeding. Although Mirant Americas Energy Marketing is the Mirant entity that engaged in transactions with the CAISO and the Cal PX, the orders issued by the FERC in the refund proceedings, and the filings made by other parties in those proceedings, generally refer to the Mirant entity involved as Mirant without being more specific. Mirant believes that the Mirant entity that would actually be liable to third parties for any refunds determined by the FERC to be owed, or that would be due any receivables found to be owed to Mirant, is Mirant Americas Energy Marketing. Agreements that were in effect at the time of the transactions at issue between Mirant

Americas Energy Marketing and the Mirant Americas Generation subsidiaries that own Mirant s generating facilities in California would shift some of the economic burden of such refunds or the benefit of such receivables from Mirant Americas Energy Marketing to those Mirant Americas Generation subsidiaries.

In the July 25, 2001 order, the FERC also ordered that a preliminary evidentiary proceeding be held to develop a factual record on whether there had been unjust and unreasonable charges for spot market bilateral sales in the Pacific Northwest from December 25, 2000 through June 20, 2001. In that proceeding, the California Attorney General, the California Public Utility Commission (the CPUC) and the California Electricity Oversight Board (the EOB) filed to recover certain refunds from parties, including Mirant Americas Energy Marketing, for bilateral sales of electricity to the DWR at the California/Oregon border, claiming that such sales took place in the Pacific Northwest. In an order issued June 25, 2003, the FERC ruled that no refunds were owed and terminated the proceeding. On November 10, 2003, the FERC denied requests for rehearing filed by various parties. Various parties have appealed the FERC s decision to the Ninth Circuit.

On September 9, 2004 the Ninth Circuit reversed the FERC s dismissal of a complaint filed in 2002 by the California Attorney General that sought refunds for transactions conducted in markets administered by the CAISO and the Cal PX outside the Refund Period set by the FERC and for transactions between the DWR and various owners of generation and power marketers, including Mirant Americas Energy Marketing and subsidiaries of Mirant Americas Generation. The Ninth Circuit remanded the proceeding to the FERC for it to determine what remedies, including potential refunds, are appropriate where entities, including Mirant Americas Energy Marketing, purportedly did not comply with certain filing requirements for transactions conducted under market-based rate tariffs. Mirant Americas Energy Marketing and other parties have filed a petition for rehearing with the Ninth Circuit.

On January 14, 2005, Mirant and certain of its subsidiaries entered into a Settlement and Release of Claims Agreement (the California Settlement) with Pacific Gas and Electric Company (PG&E), Southern California Edison Company (SCE), San Diego Gas and Electric Company, the CPUC, the DWR, the EOB and the Attorney General of the State of California (collectively, the California Parties) and with the Office of Market Oversight and Investigations of the FERC. The California Settlement was approved by the FERC on April 13, 2005 and became effective April 15, 2005 upon its approval by the Bankruptcy Court. The California Settlement results in the release of most of Mirant Americas Energy Marketing s potential liability (1) in the FERC Refund Proceedings for sales made in the CAISO or the Cal PX markets, (2) in the proceeding also initiated by the FERC in July 2001 to determine whether there had been unjust and unreasonable charges for spot market bilateral sales in the Pacific Northwest from December 25, 2000 through June 20, 2001, and (3) in any proceedings at the FERC resulting from the Ninth Circuit s reversal of the FERC s dismissal of the complaint filed in 2002 by the California Attorney General. Under the California Settlement, the California Parties and those other market participants who have opted into the settlement have released Mirant and its subsidiaries from any liability for refunds related to sales of electricity and natural gas in the western markets from January 1, 1998 through July 14, 2003. Also, the California Parties will assume the obligation of Mirant Americas Energy Marketing to pay any refunds determined by the FERC to be owed by Mirant Americas Energy Marketing to other parties that do not opt into the settlement for transactions in the CAISO and Cal PX markets during the Refund Period, with the liability of the California Parties for such refund obligation limited to the amount of certain receivables assigned by Mirant Americas Energy Marketing to the California Parties under the California Settlement. Subject to applicable bankruptcy law, however, Mirant Americas Energy Marketing will continue to be liable for any refunds that FERC determines it to owe (1) to participants in the Cal PX and CAISO markets that are not California Parties (or that did not elect to opt into the settlement) for periods outside of the Refund Period and

(2) to participants in bilateral transactions with Mirant Americas Energy Marketing that are not California Parties (or that did not elect to opt into the settlement).

FERC Show Cause Proceeding Relating to Trading Practices: On June 25, 2003, the FERC issued a show cause order (the Trading Practices Order) to more than 50 parties, including Mirant Americas Energy Marketing and subsidiaries of Mirant Americas Generation, that a FERC staff report issued on March 26, 2003 identified as having potentially engaged in one or more trading strategies of the type employed by Enron Corporation and its affiliates (Enron), as described in Enron memos released by the FERC in May 2002. The Trading Practices Order identified certain specific trading practices that the FERC indicated could constitute gaming or anomalous market behavior in violation of the CAISO and Cal PX tariffs. The Trading Practices Order requires the CAISO to identify transactions between January 1, 2000 and June 20, 2001 that may involve the identified trading strategies, and then requires the applicable sellers involved in those transactions to demonstrate why such transactions were not violations of the CAISO and Cal PX tariffs. On September 30, 2003, the Mirant entities filed with the FERC for approval of a settlement agreement (the Trading Settlement Agreement) entered into between certain Mirant entities and the FERC Trial Staff, under which Mirant Americas Energy Marketing would pay $332,411 to settle the show cause proceeding, except for an issue related to selling of ancillary services, which is discussed below. In a November 14, 2003 order in a different proceeding, the FERC ruled that certain allegations of improper trading conduct with respect to the selling of ancillary services during 2000 should be resolved in the show cause proceeding. On December 19, 2003, the Mirant entities filed with the FERC for approval of an amendment to the Trading Settlement Agreement reached with the FERC Trial Staff with respect to the sale of ancillary services. Under that amendment the FERC would have an allowed unsecured claim in Mirant Americas Energy Marketing s bankruptcy proceeding for $3.67 million in settlement of the allegations with respect to the sale of ancillary services (the Ancillary Amount). The Trading Settlement Agreement, as amended, must be approved by the FERC and the Bankruptcy Court to become effective. On April 15, 2005 the California Settlement became effective, and, as a result, the California Parties withdrew their opposition to the Trading Settlement Agreement as amended and supported approval of the Trading Settlement Agreement as proposed by the Mirant entities that are parties to that agreement and the FERC Trial Staff without change or modification. The FERC approved the Trading Settlement Agreement, as amended, on June 27, 2005, and the Mirant entities will now seek approval from the Bankruptcy Court.

Accounting Impact of California Settlement: The Company had previously recorded receivables and related reserves associated with amounts due to Mirant Americas Energy Marketing from the CAISO and Cal PX related to the period from October 2000 to June 2001 and reserves related to disputed refunds under certain Reliability-Must-Run Agreements that were resolved by the California Settlement. Upon the California Settlement s effectiveness on April 15, 2005, the Company recognized a non-cash gain of approximately $32 million in reorganization items, net in the unaudited condensed consolidated statements of operations for the three and six months ended June 30, 2005.

Shareholder-Bondholder Litigation

Mirant Securities Consolidated Action: Twenty lawsuits have been filed since May 2002 against Mirant and four of its officers alleging, among other things, that the defendants violated federal securities laws by making material misrepresentations and omissions to the investing public regarding Mirant s business operations and future prospects during the period from January 19, 2001 through May 6, 2002 due to potential liabilities arising out of its activities in California during 2000 and 2001. The complaints seek unspecified damages, including compensatory damages, and the recovery of reasonable attorneys fees and costs. These suits have been consolidated into a single action.

In November 2002, the plaintiffs filed an amended complaint that added as defendants Southern, the directors of Mirant immediately prior to its initial public offering of stock, and various firms that were underwriters for the initial public offering by the Company. In addition to the claims set out in the original complaint, the amended complaint asserts claims under the Securities Act of 1933, alleging that the registration statement and prospectus for the initial public offering of Mirant s stock misrepresented and omitted material facts. On July 14, 2003, the district court dismissed the claims asserted by the plaintiffs based on the Company s California business activities but allowed the case to proceed on the plaintiffs other claims. This action is stayed as to Mirant by the filing of its Chapter 11 proceeding. On November 19, 2003, the Bankruptcy Court entered an order staying this action also with respect to the other defendants to avoid the suit s impeding Mirant s ability to reorganize or having a negative effect upon Mirant s assets. The Bankruptcy Court has modified the stay to allow the plaintiffs to proceed with discovery of documentary materials from Mirant and the other defendants. On December 11, 2003, the plaintiffs filed a proof of claim against the estate of Mirant, which was subsequently withdrawn on or about October 10, 2004. Because of the stay applicable to the litigation, Mirant has not yet been released as a defendant in the consolidated lawsuits.

Under a master separation agreement between Mirant and Southern, Southern is entitled to be indemnified by Mirant for any losses arising out of any acts or omissions by Mirant and its subsidiaries in the conduct of the business of Mirant and its subsidiaries. The underwriting agreements between Mirant and the various firms added as defendants that were underwriters for the initial public offering by the Company also provide for Mirant to indemnify such firms against any losses arising out of any acts or omissions by Mirant and its subsidiaries.

Shareholder Derivative Litigation: Four purported shareholders derivative suits have been filed against Mirant, its directors and certain officers of the Company. Two of those suits have been consolidated. These lawsuits allege that the directors breached their fiduciary duty by allowing the Company to engage in alleged unlawful or improper practices in the California energy markets in 2000 and 2001. The Company practices alleged in these lawsuits largely mirror those alleged with respect to the Company s activities in California in the shareholder litigation discussed above. One suit also alleges that the defendant officers engaged in insider trading. The complaints seek unspecified damages on behalf of the Company, including attorneys fees, costs and expenses and punitive damages. These actions are stayed as to Mirant by the filing of its Chapter 11 proceeding. The plaintiffs have not filed a claim in the Bankruptcy Court against the Company. On November 19, 2003, the Bankruptcy Court entered an order staying these actions also with respect to the individual defendants to avoid the suits impeding Mirant s ability to reorganize or having a negative effect upon Mirant s assets. On December 8, 2003, the court in the Cichocki suit took notice of the Bankruptcy Court s Order dated November 19, 2003 staying the litigation and administratively closed the action.

Mirant Americas Generation Bondholder Suit: On June 10, 2003, certain holders of senior notes of Mirant Americas Generation maturing after 2006 filed a complaint in the Court of Chancery of the State of Delaware*, California Public Employees Retirement System, et al. v. Mirant Corporation, et al.,* that named as defendants Mirant, Mirant Americas, Mirant Americas Generation, certain past and present Mirant directors, and certain past and present Mirant Americas Generation managers. Among other claims, the plaintiffs assert that a restructuring plan pursued by the Company prior to its filing a petition for reorganization under Chapter 11 of the Bankruptcy Code was in breach of fiduciary duties allegedly owed to them by Mirant, Mirant Americas and Mirant Americas Generation s managers. In addition, the plaintiffs challenge certain dividends and distributions made by Mirant Americas Generation prior to the Petition Date. The plaintiffs seek damages in excess of $1 billion. Mirant has removed this suit to the United States District Court for the District of Delaware. This action is stayed with respect to the Mirant entities that are defendants by the filing of the Chapter 11 proceedings of these entities. On November 19, 2003, the Bankruptcy Court entered an order staying this action also with respect to the individual defendants to avoid the suit impeding the ability of the Mirant Debtors to reorganize or having a negative effect upon the assets of the Mirant Debtors. The Mirant Americas Generation Creditor Committee in 2003 filed a motion in Mirant s bankruptcy proceedings seeking to pursue claims against Mirant, Mirant Americas, certain past and present Mirant directors, and certain past and present Mirant Americas Generation managers similar to those asserted in this suit. The Bankruptcy Court ruled that while the committee has standing to assert claims on behalf of the estate of Mirant Americas Generation, no such claims could be filed without the Bankruptcy Court s approval and no motions seeking such approval could be filed at least through April 2004. On June 15, 2005, the Mirant Americas Generation Creditor Committee again filed a motion in Mirant s bankruptcy proceedings seeking to pursue claims against Mirant, Mirant Americas, certain past and present Mirant directors, and certain past and present managers of the Company similar to those asserted in this suit. On June 30, 2005, the Bankruptcy Court issued an oral ruling that if the Mirant Debtors had not by July 8, 2005 entered into agreements with the individual defendants in this action tolling the running of any statute of limitations, then the Mirant Americas Generation Creditor Committee would be authorized to file claims against those defendants on behalf of the estate of Mirant Americas Generation. The Mirant Debtors did obtain tolling agreements from each of the individual defendants.

In December 2003, Lehman Commercial Paper Inc. (Lehman), as agent for various lenders under certain pre-petition credit agreements, filed a claim against Mirant Americas Generation in the bankruptcy proceedings. In December 2003, Wells Fargo Bank, N.A. (Wells Fargo) also filed claims in the bankruptcy proceedings as successor indenture trustee for bond indebtedness under a certain indenture against Mirant Americas Generation. In addition to their original claims, Lehman and Wells Fargo filed contingent, unliquidated supplemental claims against Mirant Americas Generation, Mirant and a number of other subsidiaries of Mirant (the Supplemental Claims) seeking recovery of principal, interest, fees, and costs under the Mirant Americas Generation loan documents and bond documents, respectively. In their Supplemental Claims, Lehman and Wells Fargo essentially seek to preserve whatever rights and remedies they may have, if any, based upon the claims previously sought to be asserted by the Mirant Americas Generation Creditor Committee or other claims identified through discovery.

On November 3, 2004, the Mirant Debtors objected to the Supplemental Claims against Mirant Americas Generation and the other Mirant entities on the grounds that: (1) Lehman and Wells Fargo lack standing to pursue the Supplemental Claims, which are derivative claims belonging to each respective Mirant Debtor s estate; (2) there is no factual basis for any of the potential causes of action against Mirant Americas Generation and no basis whatsoever for the claims against any other Mirant entities; and (3) the Supplemental Claims are duplicative and contingent. In addition to the objection, the Mirant Debtors also filed a motion to dismiss the Supplemental Claims on the basis that the Supplemental Claims do not allege any independent harm to Lehman and Wells Fargo and assert nothing more than derivative claims belonging to the Mirant Debtors estates that cannot be asserted by Lehman and Wells Fargo. The Bankruptcy Court issued an order on April 12, 2005, ruling that (A) the Supplemental Claims will be withdrawn without prejudice, (B) the Bar Date is extended for the Supplemental Claims, to the extent that they are not property of the estates of or derivative of a Mirant Debtor (the Withdrawn Claims), through the date of confirmation of a plan in the Mirant Debtors Chapter 11 proceedings, (C) to the extent the Supplemental Claims are derivative, the rights of Lehman, Wells Fargo or any other party in interest to assert the Supplemental Claims or any issue relating thereto in connection with the confirmation of a plan of reorganization would be preserved and (D) the rights of Lehman, Wells Fargo and the Mirant Americas Generation Committee to seek leave to assert the Supplemental Claims would be preserved.

Mirant Americas Generation Securities Class Action: On June 11, 2003, a purported class action lawsuit alleging violations of Sections 11 and 15 of the Securities Act of 1933 was filed in the Superior Court of Fulton County, Georgia entitled *Wisniak v. Mirant Americas Generation, LLC, et al*. The lawsuit names as defendants Mirant Americas Generation and certain current and former officers and managers of Mirant Americas Generation. The plaintiff seeks to represent a putative class of all persons who purchased debt securities of Mirant Americas Generation pursuant to or traceable to an exchange offer completed by Mirant Americas Generation in May 2002 in which $750 million of bonds registered under the Securities Act of 1933 were exchanged for $750 million of previously issued senior notes of Mirant Americas Generation. The plaintiff alleges, among other things, that Mirant Americas Generation s restatement in April 2003 of prior financial statements rendered the registration statement filed for the May 2002 exchange offer materially false. The complaint seeks damages, interest and attorneys fees. The defendants have removed the suit to the United States District Court for the Northern District of Georgia. This action is stayed as to Mirant Americas Generation by the filing of its Chapter 11 proceeding. On November 19, 2003, the Bankruptcy Court entered an order staying this action also with respect to the individual defendants to avoid the suit impeding the ability of Mirant Americas Generation to reorganize or having a negative effect upon its assets. On December 8, 2003, the district court took notice of the Bankruptcy Court s order dated November 19, 2003 staying the litigation and administratively closed the action. On December 16, 2003, the plaintiff dismissed Mirant Americas Generation as a defendant, without prejudice, and filed a proof of claim against Mirant Americas Generation in the bankruptcy proceedings asserting the same claims set forth in the lawsuit.

Mirant Americas Generation and the plaintiff have entered into a stipulation of settlement of the Wisniak suit and the claim filed against Mirant Americas Generation that was approved by the Bankruptcy Court on January 19, 2005. Under the terms of the stipulation of settlement, the plaintiff will seek certification of a class by the district court that will receive $2.25 million to be paid by insurers f