MIRANT CORP
Form 10-Q
November 07, 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 September 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

Indicate by check mark whether the registrant is a shell company (as defined by Rule 12b-2 of the Exchange Act).

o Yes x No

The number of shares outstanding of the Registrant s Common Stock, par value $0.01 per share, at October 31, 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, including the effects of Hurricane Katrina and Hurricane Rita;

- 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;

• 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, Form 10-Q for the quarter ended March 31, 2005 and Form 10-Q for the quarter ended June 30, 2005.

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 September 22, 2005, and any subsequent amendments thereto (the Plan);

• our ability to satisfy the conditions precedent to the effectiveness of our proposed Plan;

• 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;

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- 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;
- possible decisions by our pre-petition creditors who under the proposed Plan are entitled to receive Mirant common stock upon our emergence from bankruptcy and therefore will 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; 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. 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 Mirant 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 September 30, 2005	2004	Nine Months Ended September 30, 2005	2004
	(In millions, except per share data)			
Operating Revenues:				
Generation	**$ 678**	$ 974	**$ 2,152**	$ 3,152
Integrated utilities and distribution	**202**	147	**543**	417
Total operating revenues	**880**	1,121	**2,695**	3,569
Cost of fuel, electricity and other products	**717**	584	**1,680**	2,085
Gross Margin	**163**	537	**1,015**	1,484
Operating Expenses:				
Operations and maintenance	**249**	239	**733**	734
Depreciation and amortization	**76**	77	**230**	231
Impairment losses and restructuring charges	**3**	9	**13**	16
Loss on sales of assets, net	**2**	65	**27**	50
Total operating expenses	**330**	390	**1,003**	1,031
Operating (Loss) Income	**(167)**	147	**12**	453
Other (Expense) Income, net:				
Interest expense	**(1,198)**	(32)	**(1,261)**	(98)
Equity in income of affiliates	**8**	6	**22**	19
Interest income	**10**	3	**22**	8
Other, net	**1**	3	**(5)**	35
Total other (expense) income, net	**(1,179)**	(20)	**(1,222)**	(36)
(Loss) Income From Continuing Operations Before Reorganization Items, Income Taxes and Minority Interest	**(1,346)**	127	**(1,210)**	417
Reorganization items, net	**109**	62	**203**	192
Provision for Income Taxes	**56**	17	**88**	49
Minority Interest	**7**	5	**20**	17
(Loss) Income From Continuing Operations	**(1,518)**	43	**(1,521)**	159
Income (Loss) from Discontinued Operations, net of tax	**3**	(11)	**7**	(65)
Net (Loss) Income	**$ (1,515)**	$ 32	**$ (1,514)**	$ 94
(Loss) Earnings Per Share:				
Basic and Diluted:				
From continuing operations	**$ (3.75)**	$ 0.11	**$ (3.75)**	$ 0.39
From discontinued operations	**0.01**	(0.03)	**0.02**	(0.16)
Net (loss) income	**$ (3.74)**	$ 0.08	**$ (3.73)**	$ 0.23

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 September 30, 2005 (Unaudited) (in millions)	At December 31, 2004
ASSETS			
Current Assets:			
Cash and cash equivalents		**$ 1,229**	$ 1,485
Funds on deposit		**1,210**	493
Receivables, net		**818**	771
Price risk management assets		**1,489**	209
Inventories		**341**	353
Prepaid expenses		**235**	253
Assets held for sale		**26**	230
Other		**80**	133
Total current assets		**5,428**	3,927
Property, Plant and Equipment, net		**6,055**	6,162
Noncurrent Assets:			
Intangible assets, net		**269**	276
Investments		**260**	248
Price risk management assets		**180**	112
Funds on deposit		**188**	210
Deferred income taxes		**186**	185
Other		**316**	304
Total noncurrent assets		**1,399**	1,335
Total assets		**$ 12,882**	$ 11,424
LIABILITIES AND STOCKHOLDERS DEFICIT			
Current Liabilities:			
Short-term debt		**$ 12**	$ 15
Current portion of long-term liabilities		**395**	206
Accounts payable and accrued liabilities		**680**	725
Price risk management liabilities		**2,072**	286
Accrued taxes and other		**222**	174
Total current liabilities		**3,381**	1,406
Noncurrent Liabilities:			
Long-term debt		**813**	1,169
Price risk management liabilities		**125**	62
Deferred income taxes		**305**	346
Other		**434**	378
Total noncurrent liabilities		**1,677**	1,955
Liabilities Subject to Compromise		**10,468**	9,217
Minority Interest in Subsidiary Companies		**174**	164
Commitments and Contingencies			
Stockholders Equity (Deficit):			
Common stock, $.01 par value, per share		**4**	4
Authorized 2,000,000,000 shares			
Issued	September 30, 2005: 405,568,084 shares		
	December 31, 2004: 405,568,084 shares		
Treasury	September 30, 2005: 100,000 shares		
	December 31, 2004: 100,000 shares		
Additional paid-in capital		**4,918**	4,918
Accumulated deficit		**(7,669)**	(6,155)
Accumulated other comprehensive loss		**(69)**	(83)
Treasury stock, at cost		**(2)**	(2)
Total stockholders deficit		**(2,818)**	(1,318)
Total liabilities and stockholders deficit		**$ 12,882**	$ 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	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Treasury Stock
	(in millions)				
Balance, December 31, 2004	$ 4	$ 4,918	$ (6,155)	$ (83)	$ (2)
Net loss			**(1,514)**		
Other comprehensive income				**14**	
Balance, September 30, 2005	**$ 4**	**$ 4,918**	**$ (7,669)**	**$ (69)**	**$ (2)**

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

	Nine Months Ended September 30, 2005	2004
	(in millions)	
Net (Loss) Income	$ (1,514)	$ 94
Other comprehensive income, net of tax		
Reclassification of TIERS investment unrealized gains to earnings		(7)
Cumulative translation adjustment	14	5
Unrealized gain on TIERS investments		5
Other comprehensive income, net of tax	14	3
Total Comprehensive (Loss) Income	**$ (1,500)**	**$ 97**

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

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

	Nine Months Ended September 30, 2005	2004
	(in millions)	
Cash Flows from Operating Activities:		
Net (loss) income	$ (1,514)	$ 94
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Amortization of transition power agreements and other obligations (non-cash revenue)	(13)	(288)
Depreciation and amortization	236	240
Impairment losses and restructuring charges	9	55
Non-cash postpetition interest expense	1,168	
Loss on sales of assets and investments	24	50
Equity in income of affiliates, net of dividends	(10)	(4)
Non-cash charges for reorganization items	105	137
Minority interest	20	17
Price risk management activities, net	400	(93)
Deferred income taxes	15	12
Other, net	33	6
Changes in operating assets and liabilities:		
Receivables, net	(136)	187
Other current assets	(702)	(100)
Other assets	1	7
Accounts payable and accrued liabilities	(7)	(273)
Taxes accrued	87	41
Other liabilities	8	(20)
Total adjustments	1,238	(26)
Net cash (used in) provided by operating activities	(276)	68
Cash Flows from Investing Activities:		
Capital expenditures	(137)	(94)
Cash paid for acquisitions		(21)
Proceeds from the sale of assets and minority owned investments	183	3
Cash paid related to disposition		(12)
Other	(5)	1
Net cash provided by (used in) investing activities	41	(123)
Cash Flows from Financing Activities:		
Payments on short-term debt, net	(1)	(11)
Proceeds from issuance of long-term debt	125	266
Repayment of long-term debt	(192)	(192)
Payment of dividends to minority interests	(11)	(8)
Change in debt service reserve fund	57	(46)
Other	1	
Net cash (used in) provided by financing activities	(21)	9
Net Decrease in Cash and Cash Equivalents	(256)	(46)
Cash and Cash Equivalents, beginning of period	1,485	1,587
Cash and Cash Equivalents, end of period	$ 1,229	$ 1,541
Supplemental Cash Flow Disclosures:		
Cash paid for interest, net of amounts capitalized	$ 102	$ 101
Cash paid for income taxes	$ 43	$ 31
Cash paid for reorganization items	$ 115	$ 77
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.

MIRANT CORPORATION AND SUBSIDIARIES
(Debtor-in-Possession)
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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 September 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 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 (VIEs) 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 VIEs 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 had total assets of approximately $114 million at September 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 September 30, 2005 of approximately $59 million.

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

Recently Adopted Accounting Standards

In December 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 153 (SFAS 153), *Exchanges of Productive Assets: an Amendment of APB Opinion No. 29.* SFAS 153 addresses the measurement of exchanges of certain nonmonetary assets. It amends APB Opinion No. 29, *Accounting for Nonmonetary Exchanges*, and requires that nonmonetary exchanges (except for certain exchanges of products or property held for sale in the ordinary course of business) be accounted for at the fair value of the assets exchanged, with gains or losses being recognized, if the fair value is determinable within reasonable limits and the transaction has commercial substance. The provisions of SFAS 153 are effective for transactions involving nonmonetary exchanges that occur in fiscal periods beginning after June 15, 2005. The Company has determined that certain exchanges of emissions credits that the Company may periodically transact would qualify as nonmonetary exchanges under SFAS 153. For the quarter ended September 30, 2005, the Company identified certain transactions involving exchanges of emissions credits of one vintage year for a different year. Because the fair value of the assets exchanged approximated the fair value of the assets received in each trade no material gain or loss was recorded. As a result, the adoption of SFAS 153 had no impact on the Company s consolidated results of operations, cash flows or financial position as of September 30, 2005.

New Accounting Standards Not Yet Adopted

In December 2004, the FASB issued SFAS No. 123R, *Share-Based Payment: an amendment of FASB Statements No. 123 and 95* (SFAS 123R), which requires companies to recognize in their income statement the grant-date fair value of stock options and other equity-based compensation issued to employees. The provisions of SFAS 123R 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 (as defined below), these options will be cancelled. New options may be granted to employees after the Company emerges from bankruptcy. 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 identified potential liabilities for additional evaluation, but has not yet quantified the impact of FIN 47 on its financial statements.

B. Bankruptcy Related Disclosures

On January 19, 2005, the 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.

On September 7, 2005, the Mirant Debtors reached an agreement with the Statutory Committees representing the key constituencies in their Chapter 11 case, including the committees representing the unsecured creditors of Mirant, the unsecured creditors of Mirant Americas Generation, LLC (Mirant Americas Generation) and the equity security holders of Mirant (collectively, the Statutory Committees), regarding the terms upon which the Mirant Debtors will emerge from bankruptcy protection. A Second Amended Plan and a Second Amended Disclosure Statement were filed on September 22, 2005 and subsequently updated on September 30, 2005. On September 30, 2005, the Bankruptcy Court approved the Disclosure Statement and authorized its use in connection with the solicitation of 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 sets forth the proposed structure of the Mirant Debtors at emergence and outlines how the claims of creditors and stockholders are proposed to be treated. The proposed Plan 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 the enterprise s debt structure as contemplated at emergence and (2) organizing a new parent entity for the Mirant Debtors ongoing business operations (New Mirant);

- the consolidated business will have approximately $4.258 billion of debt, comprised of (1) $1.063 billion of debt obligations associated with non-debtor international subsidiaries of Mirant; (2) $145 million of miscellaneous domestic indebtedness; (3) $1.7 billion of reinstated debt at Mirant Americas Generation; and (4) $1.35 billion of new debt issued by Mirant North America, LLC (Mirant North America), a newly organized holding company subsidiary of Mirant Americas Generation, in partial satisfaction of certain existing Mirant Americas Generation debt. The foregoing amounts exclude (a) the obligations of Mirant Mid-Atlantic, LLC (Mirant Mid-Atlantic) under the lease-financing transactions covering the Morgantown Power Station and the Dickerson Power Station and (b) any amounts drawn on a new $1 billion senior secured revolving credit facility that is part of the exit financing to be provided to Mirant North America under the Plan;

- in settlement of the intercompany claims and potential causes of action arising from the complex historical relationships between and among the Mirant Debtors, (1) the estates of the Mirant Debtors (excluding Mirant Americas Generation and its debtor subsidiaries) (collectively, the Consolidated Mirant Debtors) will be treated as comprising a single estate, (a) eliminating any distributions under the Plan in respect of intercompany claims between and among the Consolidated Mirant Debtors and (b) limiting a creditor holding a base claim against a Consolidated Mirant Debtor and a guarantee of such base claim from another Consolidated Mirant Debtor to a single recovery thereon; (2) the estates of Mirant Americas Generation and its debtor subsidiaries (collectively, the Consolidated Mirant Americas Generation Debtors) will be treated as a single estate, eliminating intercompany claim distributions and multiple recoveries on guarantee claims, as described in (a) and (b) above with respect to the Consolidated Mirant Debtors; and (3) all claims and actions between the Consolidated Mirant Debtors and the Consolidated Mirant Americas Generation Debtors will be released;

- the holders of unsecured claims against the Consolidated Mirant Debtors (excluding certain de minimis claims that will be paid in cash) will receive (1) a pro rata share of 96.25% of the shares of New Mirant common stock to be issued under the Plan, excluding: (a) certain shares to be issued to the holders of certain claims against the Consolidated Mirant Americas Generation Debtors, as described below, and (b) the shares reserved for issuance pursuant to the New Mirant employee stock programs; and (2) the right to receive cash payments equal to 50% of the cash recoveries realized by New Mirant, if any, in connection with certain designated avoidance actions, subject to certain adjustments for offsets, expenses and certain tax consequences to New Mirant;

- a settlement of the contractual subordination provisions among the holders of certain senior unsecured obligations of Mirant and the beneficial holders of certain subordinated notes of Mirant pursuant to which, in lieu of the shares of New Mirant common stock they would otherwise receive absent subordination, (1) the holders of such subordinated notes will receive (a) 3.5% of the New Mirant common stock issued under the Plan (which shares are included in the 96.25% referred to in the immediately preceding paragraph and subject to the exclusions noted above for Mirant s general unsecured creditors, as applicable) and (b) warrants to purchase an additional 5% of New Mirant common stock, and (2) the holders of such subordinated notes will share pari passu with Mirant s general unsecured creditors in the recoveries under the designated avoidance actions, if any;

- the outstanding equity interests in Mirant will be cancelled and the holders thereof will receive (1) 3.75% of the shares of New Mirant common stock (subject to the exclusions noted above for Mirant s general unsecured creditors as applicable), (2) warrants to purchase up to an additional 10% of the New Mirant common stock and (3) the right to receive cash payments equal to 50% of the cash recoveries realized by New Mirant, if any, in connection with certain designated avoidance actions, subject to certain adjustments for offsets, expenses and certain tax consequences to New Mirant;

- the holders of unsecured claims against the Consolidated Mirant Americas Generation Debtors will be paid in full (including post-petition interest) 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) $1.35 billion cash proceeds from third-party financing transactions or, at the option of the Mirant Debtors, new debt securities of Mirant North America and (b) receipt of a pro rata share of 2.3% of the shares of New Mirant common stock issued under the Plan, excluding shares reserved for issuance pursuant to the New Mirant employee stock programs, and (2) the reinstatement of the Mirant Americas Generation senior notes maturing in 2011, 2021 and 2031;

- in consideration of the agreement of the committee representing the unsecured creditors of Mirant Americas Generation to support the Plan and to help ensure the feasibility of the Plan, the establishment of certain additional covenant protections with respect to the Mirant Americas Generation senior notes maturing in 2011, 2021 and 2031;

- to further support the feasibility of the Plan with respect to the Consolidated Mirant Americas Generation Debtors, Mirant will contribute (or cause to be contributed) value to Mirant Americas Generation, including (1) the transfer of Mirant s trading and marketing business to Mirant North America (subject to the transfer to New Mirant or Mirant Americas, Inc. (Mirant Americas) of $250 million of cash and certain receivables), (2) the transfer of Mirant Peaker, LLC (Mirant Peaker) and Mirant Potomac River, LLC (Mirant

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Potomac River) to Mirant Mid-Atlantic, (3) the transfer of Mirant Zeeland, LLC to Mirant North America and (4) commitments to make prospective capital contributions of $150 million for refinancing of certain Mirant Americas Generation debt that matures in 2011 and, under certain circumstances, up to $265 million to Mirant North America for environmental capital expenditures;

- the Mirant Debtors that own our New York assets, including Mirant Lovett, LLC (Mirant Lovett), Mirant Bowline, LLC (Mirant Bowline) and Mirant NY-Gen, LLC (Mirant NY-Gen) will remain in Chapter 11 until the resolution of issues arising out of the sinkhole at Swinging Bridge owned by Mirant NY-Gen and the related flood study and the disputes regarding the ad valorem real property taxes for the Bowline and Lovett facilities are settled and resolved on terms that permit the feasible operation of these assets;

- 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) will be substantially transferred to Mirant Energy Trading, LLC (a subsidiary of Mirant North America); and

- the Mirant Debtors obligations under all agreements with Potomac Electric Power Company (PEPCO) will be performed on an interim basis pending a final determination of the Mirant Debtors right to reject, recharacterize, avoid or recover payments under a contractual arrangement (the Back-to-Back Agreement), the Asset Purchase and Sale Agreement (APSA) and certain Assignment and Assumption Agreements (collectively the Assumption/Assignment Agreement) entered into by various Mirant Debtors in December 2000 related to the asset purchases that were the subject of the APSA. If the Mirant Debtors do not reject, recharacterize, avoid or recover payments under the Back-to-Back Agreement, APSA and the Assumption/Assignment Agreement, and such agreements constitute executory contracts under the Bankruptcy Code, the Mirant Debtors will assume such agreements (and the Back-to-Back Agreement, APSA and the Assumption/Assignment Agreement will be assigned to Mirant Power Purchase, LLC (Mirant Power Purchase) and guaranteed by New Mirant) and any cure obligations will be performed pursuant to the Plan.

Between April 18, 2005 and June 27, 2005, the Mirant Debtors, the Statutory Committees and representatives of certain other interests were 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 intended to use the modified business plan and valuation report to generate an enterprise value for the Mirant Debtors which could be used for purposes of confirmation of a plan of reorganization for the Mirant Debtors. Due to the agreement reached on September 7, 2005, the Bankruptcy Court ordered that the previously ordered modifications to the business plan and valuation report not be completed and stated that it would not issue a formal opinion regarding valuation unless required to do so in connection with confirmation of the Plan.

Pursuant to the Bankruptcy Court s order of September 30, 2005, approving the Disclosure Statement, the Mirant Debtors mailed solicitation materials to all known holders of impaired claims and equity interests against the Mirant Debtors entitled to vote on the Plan. In addition, the Bankruptcy Court fixed December 1, 2005 as the date for the hearing to consider confirmation of the Plan and related matters. Properly executed ballots and any objections to the Plan are due by

November 10, 2005. Until such time as the Plan is confirmed by the Bankruptcy Court, it is not possible to accurately predict if or 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 not in 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 September 30, 2005
(in millions)

	Debtors	Non-Debtors	Consolidation/ Elimination Entries	Consolidated
Operating revenues	$ 557	$ 323	$	$ 880
Cost of fuel, electricity and other products	594	123		717
Operating expenses	223	107		330
Operating (loss) income	(260)	93		(167)
Other (expense) income, net	(1,187)	(10)	18	(1,179)
Reorganization items, net	107		2	109
(Benefit) provision for income taxes	(36)	92		56
Minority interest		7		7
(Loss) income from continuing operations	(1,518)	(16)	16	(1,518)
Income from discontinued operations, net of tax	3			3
Net (loss) income	$ (1,515)	$ (16)	$ 16	$ (1,515)

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

	Debtors	Non-Debtors	Consolidation/ Elimination Entries	Consolidated
Operating revenues	$ 1,789	$ 913	$ (7)	$ 2,695
Cost of fuel, electricity and other products	1,365	321	(6)	1,680
Operating expenses	699	305	(1)	1,003
Operating (loss) income	(275)	287		12
Other expense, net	(1,126)	(45)	(51)	(1,222)
Reorganization items, net	200	(1)	4	203
(Benefit) provision for income taxes	(80)	168		88
Minority interest		20		20
(Loss) income from continuing operations	(1,521)	55	(55)	(1,521)
Income from discontinued operations, net of tax	7			7
Net (loss) income	$ (1,514)	$ 55	$ (55)	$ (1,514)

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

	Debtors	Non-Debtors	Consolidation/ Elimination Entries	Consolidated
Current assets	$ 4,336	$ 1,325	$ (233)	$ 5,428
Intercompany receivables	715	585	(1,300)	
Property, plant and equipment, net	3,918	2,137		6,055
Intangible assets, net	256	13		269
Investments	2,171	244	(2,155)	260
Other	373	497		870
Total assets	$ 11,769	$ 4,801	$ (3,688)	$ 12,882
Liabilities not subject to compromise:				
Current liabilities	$ 2,758	$ 623	$	$ 3,381
Intercompany payables	494	716	(1,210)	
Other noncurrent liabilities	359	505		864
Long-term debt	185	628		813
Liabilities subject to compromise	10,791		(323)	10,468
Minority interest		174		174
Stockholders (deficit) equity	(2,818)	2,155	(2,155)	(2,818)
Total liabilities and stockholders deficit	$ 11,769	$ 4,801	$ (3,688)	$ 12,882

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

	Debtors	Non-Debtors	Consolidation/ Elimination Entries	Consolidated
Net cash (used in) provided by:				
Operating activities	$ (522)	$ 246	$	$ (276)
Investing activities	21	20		41
Financing activities	99	(120)		(21)
Net (decrease) increase in cash and cash equivalents	(402)	146		(256)
Cash and cash equivalents, beginning of period	953	532		1,485
Cash and cash equivalents, end of period	$ 551	$ 678	$	$ 1,229
Cash paid for reorganization items	$ 112	$ 3	$	$ 115

Liabilities Subject to Compromise

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

	September 30, 2005	December 31, 2004
Items, absent the bankruptcy proceedings, that would have been considered current:		
Accounts payable and accrued liabilities	$ 2,214	$ 1,028
Current portion of long-term debt	3,715	3,112
Price risk management (assets) liabilities	(4)	80
Items, absent the bankruptcy proceedings, that would have been considered noncurrent:		
Long-term debt	3,537	3,974
Price risk management liabilities	443	460
Note payable to Mirant Trust I	356	356
Other noncurrent liabilities	207	207
Total	$ 10,468	$ 9,217

The price risk management liabilities reflect the fair values of power purchase agreements (PPAs) with PEPCO. The current portion of the fair value of the PPAs is a net asset of $4 million at September 30, 2005 due to high power prices as of that date. 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. Accordingly, as of September 30, 2005, $108 million is included in liabilities subject to compromise in the unaudited condensed consolidated balance sheets.

Interest Expense

The Mirant Debtors discontinued recording interest on liabilities subject to compromise on the Petition Date and since filing for bankruptcy have disclosed the contractual interest on liabilities subject to compromise in excess of reported interest for each period. In the third quarter of 2005, the Company determined that it was probable that contractual interest on liabilities subject to compromise from the Petition Date would be incurred for certain claims expected to be allowed under the Plan. As a result, the Mirant Debtors recorded interest expense of approximately $1.2 billion on liabilities subject to compromise. This amount represents interest from the Petition Date through September 30, 2005, and is included in accounts payable and accrued liabilities in the table above. The interest amount was calculated based on the provisions of the proposed Plan. The $1.2 billion expense amount includes approximately $373 million related to Mirant Americas Generation senior notes maturing in 2011, 2021 and 2031, which would be reinstated under the proposed Plan.

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 nine months ended September 30, 2005 and 2004, the following represents the significant items within this category (in millions):

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
	2005	**2004**	**2005**	**2004**
Estimated claims	$ 84	$ 44	$ 109	$ 134
Professional fees and administrative expense	32	22	116	74
Interest income and other (gains) losses, net	(7)	(4)	(22)	(16)
Total	$ 109	$ 62	$ 203	$ 192

For the nine months ended September 30, 2005, estimated claims include a $32 million gain related to the California settlement.

PEPCO Litigation

In 2000, Mirant purchased certain power generating assets and certain other assets from PEPCO, including certain PPAs. Under the terms of the APSA, Mirant and PEPCO entered into 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 December 2005, respectively. Under the Back-to-Back Agreement, Mirant is obligated to purchase power from PEPCO at prices that are typically higher than the 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. On August 16, 2005, the district court informally stayed the Second Rejection Motion pending rulings by the Fifth Circuit on the Mirant Debtors appeals from the district court s December 9, 2004 decision denying the First Rejection Motion and from the district court s March 1, 2005 order as subsequently modified as described below.

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), the Mirant Debtors filed a notice in the Bankruptcy Court stating that the Mirant Debtors were 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 the Mirant Debtors 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. On November 3, 2005, the district court granted a motion filed by PEPCO seeking to have the suit heard by the district court rather than the Bankruptcy Court. 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 nine months ended September 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, 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 nine months ended September 30, 2005 and 2004 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. After receipt of Bankruptcy Court and regulatory approvals, the Company completed the sale of Wrightsville for $85 million in September 2005. Due to the completion of the sale, the Company recognized a gain on sale of assets, net of $2 million which is included in income from discontinued operations, net of tax, for the three and nine months ended September 30, 2005 in the unaudited condensed consolidated statements of operations.

Mirant Service Center: On September 13, 2005, Mirant Mid-Atlantic executed an agreement to sell its Mirant service center building and accompanying 68 acres located in Upper Marlboro, Maryland for $13 million. The execution of the agreement initiated a 30-day due diligence period, which concluded with no substantive issues identified. The Company is pursuing Bankruptcy Court approval of the sale and anticipates a closing by year-end.

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

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
	2005	**2004**	**2005**	**2004**
Operating revenues	$	$	$ 2	$
Operating expenses, including other income (expense), net	3	(2)	2	(56)*
Income (loss) before reorganization items	3	(2)	4	(56)
Reorganization items (benefit), net		9	(3)	9