MIRANT CORP
Form 10-Q
May 10, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended March 31, 2007

Or

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

For the Transition Period from to

Mirant Corporation

(Exact name of registrant as specified in its charter)

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

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

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

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

x Large Accelerated Filer o Accelerated Filer o Nonaccelerated Filer

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

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

The number of shares outstanding of the Registrant s Common Stock, par value $0.01 per share, at April 30, 2007, was 255,881,363.

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Glossary of Certain Defined Terms

ACO Administrative Compliance Order.

APB Accounting Principles Board.

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

APSA Asset Purchase and Sale Agreement.

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

Bankruptcy Code United States Bankruptcy Code.

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

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

CAISO California Independent System Operator.

Cal PX California Power Exchange.

CFTC Commodity Futures Trading Commission.

Clean Air Act Federal Clean Air Act.

Clean Water Act Federal Water Pollution Control Act.

CO Carbon monoxide.

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

CPUC California Public Utilities Commission.

DOE United States Department of Energy.

DOJ United States Department of Justice.

DWR California Department of Water Resources.

EBITDA Earnings before interest, taxes, depreciation and amortization.

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

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

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

EOB California Electricity Oversight Board.

EPA United States Environmental Protection Agency.

EPS Earnings per share.

FASB Financial Accounting Standards Board.

FERC Federal Energy Regulatory Commission.

FIN FASB Interpretation.

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

GAAP Generally accepted accounting principles in the United States.

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

Hudson Valley Gas Hudson Valley Gas Corporation.

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

ISO Independent System Operator.

LIBOR London InterBank Offered Rate.

LICAP Locational installed capacity.

MAAC Mid-Atlantic Area Council.

MC Asset Recovery MC Asset Recovery, LLC.

MDE Maryland Department of the Environment.

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

Mirant Americas Mirant Americas, Inc.

Mirant Americas Energy Marketing Mirant Americas Energy Marketing, LP.

Mirant Americas Generation Mirant Americas Generation, LLC.

Mirant Asia-Pacific Mirant Asia-Pacific Limited.

Mirant Bowline Mirant Bowline, LLC.

Mirant Chalk Point Mirant Chalk Point, LLC.

Mirant Energy Trading Mirant Energy Trading, LLC.

Mirant Lovett Mirant Lovett, LLC.

Mirant Mid-Atlantic Mirant Mid-Atlantic, LLC.

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

Mirant North America Mirant North America, LLC.

Mirant NY-Gen Mirant NY-Gen, LLC.

Mirant Potomac River Mirant Potomac River, LLC.

Mirant Power Purchase Mirant Power Purchase, LLC.

Mirant Sual Mirant Sual Corporation.

Mirant Trinidad Investments Mirant Trinidad Investments, LLC.

Mirant Zeeland Mirant Zeeland, LLC.

MW Megawatt.

MWh Megawatt hour.

NAAQS National ambient air quality standards.

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

NO2 Nitrogen dioxide.

NOL Net operating loss.

NOV Notice of violation.

NOx Nitrogen oxides.

NPC National Power Corporation.

NSR New Source Review.

NYISO Independent System Operator of New York.

NYSDEC New York State Department of Environmental Conservation.

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

Orange and Rockland Orange and Rockland Utilities, Inc.

Panda Panda-Brandywine, LP.

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

Pepco Potomac Electric Power Company.

PG&E Pacific Gas & Electric Company.

PJM Pennsylvania-New Jersey-Maryland Interconnection, LLC.

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

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

PPA Power purchase agreement.

Reserve Margin Excess capacity over peak demand.

RMR Reliability-must-run.

RPM Reliability Pricing Model.

RTO Regional transmission organization.

SAB SEC Staff Accounting Bulletin.

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

SCE Southern California Edison Company.

SEC U.S. Securities and Exchange Commission.

Securities Act The Securities Act of 1933.

SFAS Statement of Financial Accounting Standards.

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

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

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

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

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

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

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

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

SO2 Sulfur dioxide.

SPDES State Pollutant Discharge Elimination System.

VIE Variable interest entity.

Virginia DEQ Virginia Department of Environmental Quality.

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

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

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

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

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

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

- our ability to consummate the sales of our Philippine and Caribbean businesses, as well as any adverse impact on our credit ratings that may result from such sales;

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

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

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

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

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

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

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

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

- legislative and regulatory initiatives and changes in the application of laws and regulations by national and local governments, including increases in tax rates or assessments, in non-U.S. jurisdictions in which our subsidiaries operate;

- factors that affect the operations of our international subsidiaries, 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 to support our operations;

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

- strikes, union activity or labor unrest;

- weather and other natural phenomena, including hurricanes and earthquakes;

- the cost and availability of emissions allowances;

- our ability to obtain adequate supply and delivery of fuel for our facilities;

- curtailment of operations due to transmission constraints;

- environmental regulations that restrict our ability or render it uneconomic to operate our business, including regulations related to the emission of carbon dioxide and other greenhouse gases;

- our inability to complete construction of emissions reduction equipment by January 2010 to meet the requirements of the Maryland Healthy Air Act, which may result in reduced unit operations and reduced cash flows and revenues from operations;

- war, terrorist activities or the occurrence of a catastrophic loss;

- the fact that our Mirant Lovett subsidiary remains in bankruptcy;

- our substantial consolidated indebtedness and the possibility that we or our subsidiaries may incur additional indebtedness in the future;

- restrictions on the ability of our subsidiaries to pay dividends, make distributions or otherwise transfer funds to us, including restrictions on Mirant North America and Mirant Asia-Pacific Limited contained in their financing agreements and restrictions on Mirant Mid-Atlantic contained in its leveraged lease documents, which may affect our ability to access the cash flow of those subsidiaries to make debt service and other payments; and

- the disposition of the pending litigation described in this Form 10-Q.

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

Factors that Could Affect Future Performance

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

In addition to the discussion of certain risks in Management s Discussion and Analysis of Results of Operations and Financial Condition and the accompanying Notes to Mirant s unaudited

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condensed consolidated financial statements, other factors that could affect the Company s future performance (business, financial condition or results of operations and cash flows) are set forth in our 2006 Annual Report on Form 10-K.

Certain Terms

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

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

	Three Months Ended March 31, 2007	2006
	(in millions, except per share data)	
Operating revenues	**$ 353**	$ 962
Cost of fuel, electricity and other products	**276**	316
Gross Margin	**77**	646
Operating Expenses:		
Operations and maintenance	**151**	170
Depreciation and amortization	**32**	33
Gain on sales of assets, net	**(2)**	(40)
Total operating expenses	**181**	163
Operating Income (Loss)	**(104)**	483
Other Expense (Income), net:		
Interest expense	**66**	74
Interest income	**(18)**	(16)
Other, net	**(2)**	
Total other expense, net	**46**	58
Income (Loss) From Continuing Operations Before Reorganization Items and Income Taxes	**(150)**	425
Reorganization items, net	**(1)**	
Provision (benefit) for income taxes	**(15)**	1
Income (Loss) From Continuing Operations	**(134)**	424
Income From Discontinued Operations, net	**82**	43
Net Income (Loss)	**$ (52)**	$ 467
Basic EPS:		
Basic EPS from continuing operations	**$ (0.52)**	$ 1.42
Basic EPS from discontinued operations	**0.32**	0.14
Basic EPS	**$ (0.20)**	$ 1.56
Diluted EPS:		
Diluted EPS from continuing operations	**$ (0.52)**	$ 1.37
Diluted EPS from discontinued operations	**0.32**	0.14
Diluted EPS	**$ (0.20)**	$ 1.51
Average shares outstanding	**256**	300
Effect of dilutive securities		9
Average shares outstanding assuming dilution	**256**	309

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

MIRANT CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

	At March 31, 2007 (Unaudited) (in millions)	At December 31, 2006
ASSETS		
Current Assets:		
Cash and cash equivalents	**$ 1,124**	$ 1,142
Funds on deposit	**312**	235
Receivables, net	**288**	381
Price risk management assets	**358**	715
Inventories	**254**	288
Prepaid expenses	**135**	142
Assets held for sale	**5,048**	4,983
Deferred income taxes	**197**	110
Total current assets	**7,716**	7,996
Property, Plant and Equipment, net	**2,257**	2,201
Noncurrent Assets:		
Intangible assets, net	**212**	214
Price risk management assets	**71**	100
Deferred income taxes	**538**	660
Prepaid rent	**194**	218
Other	**141**	147
Total noncurrent assets	**1,156**	1,339
Total assets	**$ 11,129**	$ 11,536
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities:		
Current portion of long-term debt	**$ 165**	$ 142
Claims payable and estimated claims accrual	**37**	28
Accounts payable and accrued liabilities	**374**	425
Price risk management liabilities	**245**	322
Liabilities held for sale	**2,129**	2,205
Deferred income taxes	**31**	49
Accrued taxes and other	**8**	88
Total current liabilities	**2,989**	3,259
Noncurrent Liabilities:		
Long-term debt	**2,976**	3,133
Price risk management liabilities	**425**	428
Asset retirement obligations	**42**	41
Pension and postretirement obligations	**175**	204
Other	**12**	10
Total noncurrent liabilities	**3,630**	3,816
Liabilities Subject to Compromise	**2**	18
Commitments and Contingencies		
Stockholders Equity:		
Preferred stock, par value $.01 per share, authorized 100,000,000 shares, no shares issued at March 31, 2007 and December 31, 2006		
Common stock, par value $.01 per share, authorized 1.5 billion shares, issued 300,430,092 and 300,200,197 at March 31, 2007 and December 31, 2006, respectively, and outstanding 256,002,858 shares and 256,017,187 at March 31, 2007 and December 31, 2006, respectively	**3**	3
Treasury stock, at cost, 44,427,234 shares and 44,183,010 shares at March 31, 2007 and December 31, 2006, respectively	**(1,270)**	(1,261)
Additional paid-in capital	**11,326**	11,317
Accumulated deficit	**(5,533)**	(5,598)
Accumulated other comprehensive income	**(18)**	(18)
Total stockholders equity	**4,508**	4,443
Total liabilities and stockholders equity	**$ 11,129**	$ 11,536

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

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

	Common Stock	Treasury Stock	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income
	(in millions)				
Balance, December 31, 2006	$ 3	$ (1,261)	$ 11,317	$ (5,598)	$ (18)
Net loss				(52)	
Stock repurchases		(9)			
Stock-based compensation			7		
Exercises of stock options and warrants			2		
Adoption of FIN 48				117	
Balance, March 31, 2007	**$ 3**	**$ (1,270)**	**$ 11,326**	**$ (5,533)**	**$ (18)**

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

	Three Months Ended March 31, 2007	2006
	(in millions)	
Net Income (Loss)	**$ (52)**	$ 467
Other comprehensive income, net of tax		
Cumulative translation adjustment		1
Unrealized gains on available-for-sale securities		26
Other comprehensive income, net of tax		27
Total Comprehensive Income (Loss)	**$ (52)**	$ 494

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

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

	Three Months Ended March 31, 2007	2006
	(in millions)	
Cash Flows from Operating Activities:		
Net income (loss)	**$ (52)**	$ 467
Income from discontinued operations	**82**	43
Income (loss) from continuing operations	**(134)**	424
Adjustments to reconcile net income (loss) from continuing operations to net cash provided by (used in) operating activities:		
Depreciation and amortization	**32**	33
Gain on sales of assets and investments	**(2)**	(41)
Price risk management activities, net	**305**	(300)
Stock based compensation	**7**	3
Gain on curtailment of postretirement benefits	**(32)**	
Other, net	**(25)**	3
Changes in operating assets and liabilities:		
Receivables, net	**122**	236
Other current assets	**(35)**	152
Other assets	**24**	24
Accounts payable and accrued liabilities	**(60)**	(203)
Settlement of claims payable	**(6)**	(746)
Accrued taxes	**(20)**	15
Other liabilities	**6**	(2)
Total adjustments	**316**	(826)
Net cash provided by (used in) operating activities of continuing operations	**182**	(402)
Net cash provided by operating activities of discontinued operations	**69**	156
Net cash provided by (used in) operating activities	**251**	(246)
Cash Flows from Investing Activities:		
Capital expenditures	**(76)**	(21)
Proceeds from the sales of assets and other investments	**2**	50
Other	**3**	
Net cash provided by (used in) investing activities of continuing operations	**(71)**	29
Net cash used in investing activities of discontinued operations	**(19)**	(66)
Net cash used in investing activities	**(90)**	(37)
Cash Flows from Financing Activities:		
Proceeds from issuance of long-term debt		2,015
Repayment of long-term debt	**(134)**	(467)
Proceeds from exercise of warrants and stock options	**3**	
Settlement of debt under the Plan		(990)
Debt issuance costs		(51)
Purchase of treasury stock	**(9)**	
Net cash provided by (used in) financing activities of continuing operations	**(140)**	507
Net cash used in financing activities of discontinued operations.	**(32)**	(44)
Net cash provided by (used in) financing activities	**(172)**	463
Effect of Exchange Rate Changes on Cash and Cash Equivalents		(1)
Net Increase (Decrease) in Cash and Cash Equivalents	**(11)**	179
Cash and Cash Equivalents, beginning of period	**1,142**	1,068
Plus: Cash and Cash Equivalents in Assets Held for Sale, beginning of period	**243**	483
Less: Cash and Cash Equivalents in Assets Held for Sale, end of period	**250**	527
Cash and Cash Equivalents, end of period	**$ 1,124**	$ 1,203
Supplemental Cash Flow Disclosures:		
Cash paid for interest, net of amounts capitalized	**$ 11**	$ 59
Cash paid for income taxes	**$ 6**	$ 1
Cash paid for claims and professional fees from bankruptcy	**$ 76**	$ 1,833

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

MIRANT CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

A. Description of Business

Mirant generates revenues primarily through the production of electricity in the United States, the Philippines and the Caribbean. As of March 31, 2007, the Company owned or leased 17,522 MW of electric generating capacity. In the third quarter of 2006, Mirant commenced separate auction processes to sell its Philippine (2,203 MW) and Caribbean (1,050 MW) businesses and six of its U.S. natural gas-fired assets totaling 3,619 MW, including the Zeeland (903 MW), West Georgia (613 MW), Shady Hills (469 MW), Sugar Creek (561 MW), Bosque (546 MW) and Apex (527 MW) facilities. On May 1, 2007, the Company consummated the sale of six U.S. natural gas-fired plants. The Company has executed definitive purchase and sale agreements for its Philippine and Caribbean businesses. The sale of the Philippine business is expected to close in late June or early July of 2007. The sale of the Caribbean business is expected to close by mid-2007. See Note C for additional information regarding the accounting for these businesses and assets as discontinued operations. In addition, on May 7, 2007, the Company completed the sale of Mirant NY-Gen (121 MW).

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

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

B. Accounting and Reporting Policies

Basis of Presentation

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

The accompanying unaudited condensed consolidated financial statements include the accounts of Mirant and its wholly-owned and controlled majority-owned subsidiaries as well as VIEs in which Mirant has an interest and is the primary beneficiary. The financial statements have been prepared from records maintained by Mirant and its subsidiaries in their respective countries of operation. All significant intercompany accounts and transactions have been eliminated in consolidation.

Investments in minority-owned companies in which Mirant exercises significant influence over operating and financial policies are accounted for using the equity method of accounting. Jointly owned affiliates which Mirant does not control, as well as interests in VIEs in which Mirant is not the primary beneficiary, also are accounted for using the equity method of accounting.

All amounts are presented in U.S. dollars unless otherwise noted. In accordance with SFAS No. 144, the results of operations of the Company s businesses and assets to be disposed of have been reclassified to discontinued operations, and the associated assets and liabilities have been reclassified to assets and liabilities held for sale for all periods presented. In addition, the accompanying unaudited condensed consolidated statements of cash flows present the cash flows from discontinued operations in each of the three major categories (operating, investing and financing activities). The unaudited condensed consolidated statement of cash flows for the three months ended March 31, 2006, was revised to conform to this presentation.

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

Curtailment of Other Postretirement Benefits

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

Recently Adopted Accounting Standards

Adoption of FIN 48

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

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

On January 1, 2007, the Company adopted the provisions of FIN 48 for all uncertain tax positions. Only tax positions that met the more-likely-than-not recognition threshold at the effective date were recognized or will continue to be recognized. For continuing operations, the adoption of FIN 48 resulted in a decrease in accrued liabilities of $61 million and an increase of $26 million in taxes receivable. For discontinued operations, the adoption of FIN 48 resulted in a decrease in liabilities held for sale and accumulated deficit of $30 million. The total effect of adopting FIN 48 was an increase in stockholders equity of $117 million.

Adoptions of Other Standards

In February 2006, the FASB issued SFAS No. 155, which allows fair value measurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation. SFAS No. 155 is effective for all financial instruments acquired, issued or subject to a re-measurement event beginning in the first fiscal year after September 15, 2006. At the date of adoption, any difference between the total carrying amount of the existing bifurcated hybrid financial instrument and the fair value of the combined hybrid financial instrument will be recognized as a cumulative effect adjustment to beginning retained earnings. The Company adopted SFAS No. 155 on January 1, 2007. The adoption of SFAS No. 155 did not impact the Company s statements of operations, financial position or cash flows.

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

New Accounting Standards Not Yet Adopted

On September 15, 2006, the FASB issued SFAS No. 157, which establishes a framework for measuring fair value under GAAP and expands disclosure about fair value measurement. SFAS No. 157 requires companies to disclose the fair value of their financial instruments according to a fair value hierarchy (i.e., levels 1, 2, and 3, as defined). Additionally, companies are required to provide enhanced disclosure regarding fair value measurements in the level 3 category, including a reconciliation of the beginning and ending balances separately for each major category of assets and liabilities accounted for at fair value. SFAS No. 157 is effective at the beginning of the first fiscal year after November 15, 2007. The Company will adopt SFAS No. 157 on January 1, 2008 and, as of that date, evaluate the fair value of its assets and liabilities according to the hierarchy established by the FASB and present the required disclosures. It is also expected that the adoption of SFAS No. 157 will affect the measurement of certain liabilities by incorporating Mirant s own credit standing and the accounting for inception gains and losses currently being deferred under EITF 02-3. The net deferred inception gains and losses at March 31, 2007, were not material. The Company has not yet determined the potential impact of SFAS No. 157 on its statements of operations, financial position or cash flows.

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

C. Dispositions

Assets and Liabilities Held for Sale

Assets and liabilities held for sale include discontinued operations and other assets that the Company expects to dispose of in the next year. In the third quarter of 2006, Mirant commenced auction processes to sell the Philippine and Caribbean businesses and six natural gas-fired intermediate and peaking plants totaling 3,619 MW comprised of Zeeland (903 MW), West Georgia (613 MW), Shady Hills (469 MW), Sugar Creek (561 MW), Bosque (546 MW) and Apex (527 MW).

On December 11, 2006, Mirant entered into a definitive purchase and sale agreement with a consortium of The Tokyo Electric Power Company, Incorporated and Marubeni Corporation for the sale of its Philippine business for a purchase price of $3.424 billion, plus a working capital adjustment at the closing. After the payment of related debt, which is estimated to be $642 million at the closing, and transaction costs, the net proceeds to the Company are expected to be approximately $3.192 billion, which includes post-closing payments of approximately $64 million related to non-cash working capital amounts as of the expected closing date. Further, it is expected that the insurance claims and any resulting recoveries arising out of the Sual outages are to be assigned to the Company for resolution post-closing. The transaction is expected to close in late June or early July of 2007 after the satisfaction of certain customary conditions and Mirant s ability to meet specified testing criteria in respect of units 1 and 2 of the Sual generation facility.

On April 18, 2007, Mirant entered into a definitive purchase and sale agreement with a subsidiary of Marubeni Corporation for the sale of its Caribbean business for a purchase price of $1.082 billion, which includes related debt of approximately $350 million, power purchase obligations of approximately $153 million and estimated working capital at closing. The net proceeds to Mirant are expected to be approximately $565 million after transaction costs. The transaction is expected to close by mid-2007 after the satisfaction of certain conditions.

On May 1, 2007, Mirant completed the sale of six U.S. natural gas-fired plants to Broadway Generating Company, LLC (formerly called LS Power Acquisition Co. I), a member of the LS Power Group. The net proceeds to Mirant from the sale, after transaction costs and retiring $83 million of project-related debt, were $1.306 billion. In accordance with Mirant North America s debt covenants, approximately $524 million of the proceeds from the sale, including those related to the Zeeland and Bosque plants, will be reinvested in the business of Mirant North America.

At March 31, 2007 and December 31, 2006, assets and liabilities held for sale consisted of the planned dispositions discussed above and ancillary equipment included in the sale to the LS Power Group.

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

	At March 31, 2007	At December 31, 2006
Current Assets:		
Cash and cash equivalents	$ 250	$ 243
Funds on deposit	76	126
Other current assets	532	520
Total current assets	858	889
Property, Plant and Equipment, net	3,517	3,489
Noncurrent Assets:		
Investments	227	224
Other noncurrent assets	446	381
Total noncurrent assets	673	605
Total Assets	$ 5,048	$ 4,983
Current Liabilities:		
Short-term debt	$ 25	$ 25
Current portion of long-term debt	166	166
Other current liabilities	247	235
Total current liabilities	438	426
Noncurrent Liabilities:		
Long-term debt	1,091	1,149
Other noncurrent liabilities	600	630
Total noncurrent liabilities	1,691	1,779
Total Liabilities	$ 2,129	$ 2,205

Long-Term Debt

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

	At March 31, 2007	At December 31, 2006	Interest Rate	Secured/ Unsecured
Long-term debt:				
Mirant North America:				
Mirant Zeeland capital lease, due 2007 to 2012	$ 11	$ 11	9.5%	
Other:				
Mirant Sweden International AB (publ), due 2007 to 2012	642	700	LIBOR + 2.25%	Secured
Jamaica Public Service Company Limited, due 2007 to 2030	52	55	7.00% to LIBOR + 7.5%	Secured
Jamaica Public Service Company Limited, VIEs	114	114		
Jamaica Public Service Company Limited, due 2016	180	180	11%	Unsecured
Mirant Grand Bahama Limited, due 2007 to 2011	9	10	LIBOR + 1.25%	Secured
Grand Bahama Power Company Limited, due 2007 to 2014	54	50	5.625% to Bahamian Prime + 1.125%	Unsecured
Mirant Trinidad Investments LLC, due 2016	100	100	7.017%	Secured
Mirant Curacao Investments, Ltd, due 2007	12	12	10.15%	Secured
West Georgia Generating Company, due 2007 to 2011	83	83	LIBOR + 3.125%	Secured
Total long-term debt	1,257	1,315		
Less: current portion of long-term debt	(166)	(166)		
Total long-term debt, excluding current portion	$ 1,091	$ 1,149		

Discontinued Operations

The Company has reclassified amounts for prior periods in the financial statements to report separately, as discontinued operations, the revenues and expenses of components of the Company that have been disposed of or have met the required criteria for such classification at March 31, 2007.

For the three months ended March 31, 2007, income from discontinued operations includes the Philippine and Caribbean businesses and the six U.S. natural gas-fired plants. For the three months ended March 31, 2006, income from discontinued operations also included the Wichita Falls facility in Texas that was sold on May 4, 2006.

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

	Three Months Ended March 31, 2007			
	U.S.	**Philippines**	**Caribbean**	**Total**
Operating revenues	$ 43	$ 101	$ 187	$ 331
Operating expenses	29	45	158	232
Operating income	14	56	29	99
Other expense, net	2	5	10	17
Net income	$ 12	$ 51	$ 19	$ 82

	Three Months Ended March 31, 2006			
	U.S.	**Philippines**	**Caribbean**	**Total**
Operating revenues	$ 31	$ 122	$ 188	$ 341
Operating expenses	34	42	159	235
Operating income (loss)	(3)	80	29	106
Other expense, net	3	45	15	63
Net income (loss)	$ (6)	$ 35	$ 14	$ 43

Contingencies

Sual Outages

On July 12, 2006, the Company s Sual generating facility in the Philippines had an unplanned outage of unit 2 of its generation facility due to a failure of the generator. The repairs on unit 2 were completed on March 4, 2007, and the unit returned to operation. On October 23, 2006, unit 1 at the Sual generation facility had an unplanned outage as a result of a failure of the generator. Mirant has contracted with the generator manufacturer to perform repairs to unit 1 at an approximate cost of $26 million, and repairs are expected to be completed in May 2007. In the first quarter of 2007, incurred costs and reduced gross margin related to the outages were approximately $49 million, of which approximately $44 million is expected to be recovered through insurance proceeds and recognized as income in future periods. Finalizing the sale of the Philippine business is contingent upon Mirant s ability to meet the specified testing criteria in respect of Sual units 1 and 2.

NPC Claims

Mirant Sual is contracted to sell 1,000 MW of its 1,218 MW capacity to NPC pursuant to an energy conversion agreement. Mirant Sual is entitled to sell the 218 MW of excess capacity to Mirant (Philippines) Energy Corporation, which markets the Sual excess capacity to customers agreed or otherwise approved by NPC through the energy supply business of Mirant (Philippines) Energy Corporation. Mirant (Philippines) Energy Corporation received a letter from NPC dated March 16, 2006, claiming refunds in the amount of $26 million relating to sales of excess capacity from January 2001 to January 2006. Mirant (Philippines) Energy Corporation and NPC signed a Clarificatory Framework for Sual Power Plant on February 13, 2007, clarifying the dispatch protocol of the Sual excess sales and resolving or withdrawing the claims of NPC. In connection with the resolution, Mirant (Philippines) Energy Corporation paid approximately $9 million to NPC for the settlement of claims.

D. Price Risk Management Assets and Liabilities

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

	At March 31, 2007				
	Assets		Liabilities		
	Current	Noncurrent	Current	Noncurrent	Net Fair Value
Electricity	$ 225	$ 71	$ (205)	$ (46)	$ 45
Back-to-Back Agreement(1)			(19)	(352)	(371)
Natural Gas	14		(11)	(1)	2
Oil	112		(9)	(26)	77
Coal	10		(1)		9
Other, including credit reserves	(3)				(3)
Total	$ 358	$ 71	$ (245)	$ (425)	$ (241)

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

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

The following table represents the net price risk management assets and liabilities by tenor as of March 31, 2007 (in millions):

	Back-to-Back Agreement	All Other Agreements
2007	$ (14)	$ 179
2008	(16)	(49)
2009	(20)	3
2010	(25)	(2)
Thereafter	(296)	(1)
Net assets (liabilities)	$ (371)	$ 130

The volumetric weighted average maturity, or weighted average tenor, of the price risk management portfolio, excluding the Back-to-Back Agreement, at March 31, 2007, was approximately 13 months. The net notional amount of the price risk management assets and liabilities, excluding the Back-to-Back Agreement, at March 31, 2007, was a net short position of approximately 46 million equivalent MWh.

The following table provides a summary of the factors affecting the change in net fair value of the price risk management asset and (liability) accounts for the three months ended March 31, 2007 (in millions):

	Proprietary Trading and Fuel Oil Management	Asset Management	Back-to-Back Agreement	Total
Net fair value of portfolio at December 31, 2006	$ 47	$ 443	$ (425)	$ 65
Changes in fair value, net	7	(195)	43	(145)
Contracts settled during the period, net	(6)	(166)	11	(161)
Net fair value of portfolio at March 31, 2007	$ 48	$ 82	$ (371)	$ (241)

E. Debt

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

	At March 31, 2007	At December 31, 2006	Interest Rate	Secured/ Unsecured
Long-term debt:				
Mirant Americas Generation:				
Senior notes:				
Due 2011	$ 850	$ 850	8.30%	Unsecured
Due 2021	450	450	8.50%	Unsecured
Due 2031	400	400	9.125%	Unsecured
Unamortized debt premium/discount	(4)	(4)		
Mirant North America:				
Term loan, due 2007 to 2013	560	693	LIBOR + 1.75%	Secured
Notes, due 2013.	850	850	7.375%	Unsecured
Capital leases, due 2007 to 2015	35	36	7.375% - 8.19%	
Total Mirant	3,141	3,275		
Less: current portion of long-term debt	(165)	(142)		
Total long-term debt, excluding current portion	$ 2,976	$ 3,133		

Senior Secured Credit Facilities

Mirant North America, a wholly-owned subsidiary of Mirant Americas Generation, entered into senior secured credit facilities in January 2006, which are comprised of an $800 million six-year senior secured revolving credit facility and a $700 million seven-year senior secured term loan. The full amount of the senior secured revolving credit facility is available for cash draws or for the issuance of letters of credit. On January 3, 2006, Mirant North America drew $465 million under its senior secured revolving credit facility. All amounts were repaid during the first quarter of 2006. The senior secured term loan was fully drawn at closing and amortizes in quarterly installments aggregating 0.25% of the original principal of the term loan per quarter for the first 27 quarters, with the remainder payable on the final maturity date in January 2013. At the closing, $200 million drawn under the senior secured term loan was deposited into a cash collateral account to support the issuance of up to $200 million of letters of credit. As of March 31, 2007, there were approximately $200 million of letters of credit outstanding under the senior secured term loan and $18 million outstanding under the senior secured revolving credit facility. The senior secured credit facilities are obligations of Mirant North America and the respective guarantors and are without recourse to any other Mirant entities.

In addition to the quarterly installments, Mirant North America is required to prepay a portion of the outstanding senior secured term loan principal balance once a year. The prepayment is based on an adjusted EBITDA calculation that determines excess free cash flows, as defined in the loan agreement. On March 30, 2007, the Company made a mandatory principal prepayment of approximately $131 million on the term loan. Based on projections for 2007, the current estimate of the mandatory principal prepayment of the term loan in March 2008 is approximately $155 million. This amount has been reclassified from long-term debt to current portion of long-term debt at March 31, 2007.

F. Bankruptcy Related Disclosures

Financial Statements of Subsidiaries in Bankruptcy

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

At March 31, 2007, Mirant Lovett and Mirant NY-Gen remained in bankruptcy. On January 31, 2007, Mirant New York entered into an agreement for the sale of Mirant NY-Gen, which owns the Hillburn and Shoemaker gas turbine facilities and the Swinging Bridge, Rio and Mongaup hydroelectric generating facilities. The sale price of $5 million is subject to adjustments for working capital and certain dam remediation efforts that are ongoing at the Swinging Bridge facility. The sale closed on May 7, 2007, and Mirant NY-Gen emerged from bankruptcy as part of the sale. The timing of the filing of a plan of reorganization for Mirant Lovett, and of its emergence from bankruptcy, is uncertain. Mirant Americas is providing Mirant Lovett with a debtor-in-possession credit facility for working capital. For further discussion see Chapter 11 Proceedings in Note K.

Unaudited condensed combined financial statements of the two New York subsidiaries, Mirant Lovett and Mirant NY-Gen, that remained in bankruptcy at March 31, 2007, are set forth below:

Mirant Lovett and Mirant NY-Gen
Unaudited Condensed Combined Statements of Operations

	For the Three Months Ended March 31, 2007	2006
	(in millions)	
Operating revenues	$ 49	$ 66
Total cost of fuel, electricity and other products	22	42
Operating expenses	20	24
Operating income	7	
Other expense, net	1	
Net Income	$ 6	$

Mirant Lovett and Mirant NY-Gen
Unaudited Condensed Combined Balance Sheet Data

	At March 31, 2007	At December 31, 2006
	(in millions)	
Assets affiliate	$ 55	$ 64
Assets nonaffiliate	35	37
Property, plant and equipment, net	184	187
Total assets	$ 274	$ 288
Liabilities not subject to compromise		
Liabilities affiliate	$ 17	$ 11
Liabilities nonaffiliate	22	50
Liabilities subject to compromise		
Liabilities affiliate	28	27
Liabilities nonaffiliate	2	2
Member s equity	205	198
Total liabilities and member s equity	$ 274	$ 288

Mirant Lovett and Mirant NY-Gen
Unaudited Condensed Combined Statements of Cash Flows

	For the Three Months Ended March 31, 2007	2006
	(in millions)	
Net cash provided by (used in):		
Operating activities	$ (15)	$ (5)
Investing activities	7	7
Financing activities	7	
Net increase (decrease) in cash and cash equivalents	(1)	2
Cash and cash equivalents, beginning of period	4	
Cash and cash equivalents, end of period	$ 3	$ 2

G. Stock-based Compensation

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

During the three months ended March 31, 2007, the Company recognized approximately $7 million of compensation expense related to stock options, restricted stock and restricted stock units. This amount is included in operations and maintenance expense in the unaudited condensed consolidated statement of operations. As of March 31, 2007, approximately 1.2 million and 244,000, respectively, of stock options and restricted stock/stock units were vested and have an aggregate intrinsic value of $19 million and $10 million, respectively. Approximately 69,000 stock options were exercised during the three months ended March 31, 2007, and the Company received cash proceeds of approximately $2 million.

As of March 31, 2007, there was approximately $38 million of total unrecognized compensation cost related to non-vested stock-based compensation awards. The outstanding stock options, restricted stock and restricted stock units have an accelerated vesting clause should certain events occur, including a change in control of the Company.

H. Earnings per Share

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

The following table shows the computation of basic and diluted EPS for the period ended March 31, 2007 and 2006 (in millions except per share data):

	Three Months Ended March 31, 2007	2006
Net income (loss) from continuing operations	$ (134)	$ 424
Net income from discontinued operations	82	43
Net income (loss) as reported	$ (52)	$ 467
Basic and diluted:		
Weighted average shares outstanding basic	256	300
Shares due to assumed exercise of warrants and options	21	8
Shares due to assumed vesting of restricted stock and restricted stock units	1	1
Weighted average shares outstanding diluted	278	309
Basic EPS		
EPS from continuing operations	$ (0.52)	$ 1.42
EPS from discontinued operations	0.32	0.14
Basic EPS	$ (0.20)	$ 1.56
Diluted EPS		
EPS from continuing operations	$ (0.52)	$ 1.37
EPS from discontinued operations	0.32	0.14
Diluted EPS	$ (0.20)	$ 1.51

I. Income Taxes

The Company adopted the provisions of FIN 48 on January 1, 2007. Mirant has historically recognized contingent liabilities related to tax uncertainties when it was probable that a loss had occurred and the loss or range of loss could be reasonably estimated. The recognition of contingent losses for tax uncertainties required management to make significant assumptions about the expected outcomes of certain tax contingencies. Upon adoption of FIN 48, the Company changed its method to recognize only liabilities for uncertain tax positions that are less than or subject to the measurement threshold of the more-likely-than-not standard. As a result of the implementation of FIN 48, for continuing operations the Company recognized a decrease in accrued liabilities of $61 million and an increase of $26 million in taxes receivable. The additional tax benefits resulted in an increase of $87 million to stockholders equity. The unrecognized tax benefit for continuing operations as of January 1 and March 31, 2007, was $13 million, all of which would affect the Company s effective tax rate if it were to be recognized. The unrecognized tax benefit included the review of tax positions relating to open tax years beginning 1999 to the present. The Company does not currently anticipate any significant changes to the amount of the unrecognized tax benefit absent changes in judgment about the realizability of its recognized or unrecognized tax benefits. The Company s tax provision continues to include the accrual for any penalties and interest subsequent to its adoption of FIN 48.

The Company has recorded an additional $27 million tax benefit in the first quarter of 2007 relating to adjustments in the estimated value of the NOLs that will be used to offset the additional taxable gain in 2007 resulting from the pending sale of the Philippine business. This adjustment is due to changes in the estimated working capital adjustment included in the estimated sales price.

J. Segment Reporting

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

Operating Segments

	Mid-Atlantic (in millions)	Northeast	California	Other Operations	Eliminations	Total
Three Months Ended March 31, 2007:						
Operating Revenues	$ 57	$ 155	$ 45	$ 96	$	$ 353
Cost of fuel, electricity and other products	130	113	13	26	(6)	276
Gross margin	(73)	42	32	70	6	77
Operating Expenses:						
Operations and maintenance	83	45	20	3		151
Depreciation and amortization	19	7	3	3		32
Gain on sales of assets, net	(1)	(10)	(1)		10	(2)
Total operating expenses	101	42	22	6	10	181
Operating income (loss)	(174)		10	64	(4)	(104)
Total other expense (income), net	(1)	(2)	(3)	52		46
Income (loss) from continuing operations before reorganization items and income taxes	(173)	2	13	12	(4)	(150)
Reorganization items, net		(1)				(1)
Benefit for income taxes						