

MIRANT CORP  
Form 10-Q  
May 07, 2010  
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**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, 2010

OR

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

For the transition period from            to

Commission File Number: 001-16107

**Mirant Corporation**

(Exact Name of Registrant as Specified in Its Charter)

**Delaware**  
(State or Other Jurisdiction of Incorporation  
or Organization)

**20-3538156**  
(I.R.S. Employer Identification No.)

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1155 Perimeter Center West, Suite 100,  
Atlanta, Georgia  
(Address of Principal Executive Offices)

30338  
(Zip Code)

(678) 579-5000

(Registrant's Telephone Number, Including Area Code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). x Yes " No

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

Large Accelerated Filer	<input checked="" type="checkbox"/>	Accelerated Filer	<input type="checkbox"/>
Non-accelerated Filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>

(Do not check if a smaller reporting company)

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

As of May 3, 2010, there were 145,457,714 shares of the registrant's Common Stock, \$0.01 par value per share, outstanding.

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### **Glossary of Certain Defined Terms**

**Ancillary Services** Services that ensure reliability and support the transmission of electricity from generation sites to customer loads. Such services include regulation service, reserves and voltage support.

**Bankruptcy Code** United States Bankruptcy Code.

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

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

**CAIR** Clean Air Interstate Rule.

**CAISO** California Independent System Operator.

**Cal PX** California Power Exchange.

**Clean Air Act** Federal Clean Air Act.

**Clean Water Act** Federal Water Pollution Control Act.

**CO<sub>2</sub>** Carbon dioxide.

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

**CPUC** California Public Utilities Commission.

**Dark Spread** The difference between the price received for electricity generated compared to the market price of the coal required to produce the electricity.

**DWR** California Department of Water Resources.

**EBITDA** Earnings before interest, taxes, depreciation and amortization.

**EOB** California Electricity Oversight Board.

**EPA** United States Environmental Protection Agency.

**EPC** Engineering, procurement and construction.

**EPS** Earnings per share.

**Exchange Act** Securities Exchange Act of 1934.

**Exchange Ratio** Right of Mirant Corporation stockholders to receive 2.835 shares of common stock of RRI Energy, Inc.

**FASB** Financial Accounting Standards Board.

**FERC** Federal Energy Regulatory Commission.

**GAAP** United States generally accepted accounting principles.

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**GenOn Energy** GenOn Energy, Inc.

**Gross Margin** Operating revenue less cost of fuel, electricity and other products, excluding depreciation and amortization.

**Hudson Valley Gas** Hudson Valley Gas Corporation.

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

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**ISO** Independent System Operator.

**ISO-NE** Independent System Operator-New England.

**LIBOR** London InterBank Offered Rate.

**MC Asset Recovery** MC Asset Recovery, LLC.

**MDE** Maryland Department of the Environment.

**Merger Agreement** An agreement and plan of merger into which Mirant Corporation entered with RRI Energy, Inc. and RRI Energy Holdings, Inc. on April 11, 2010.

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

**Mirant Americas Energy Marketing** Mirant Americas Energy Marketing, LP.

**Mirant Americas Generation** Mirant Americas Generation, LLC.

**Mirant Bowline** Mirant Bowline, LLC.

**Mirant California** Mirant California, LLC.

**Mirant Canal** Mirant Canal, LLC.

**Mirant Chalk Point** Mirant Chalk Point, LLC.

**Mirant Delta** Mirant Delta, LLC.

**Mirant Energy Trading** Mirant Energy Trading, LLC.

**Mirant Lovett** Mirant Lovett, LLC, owner of the former Lovett generating facility, which was shut down on April 19, 2008, and has been demolished.

**Mirant Marsh Landing** Mirant Marsh Landing, LLC.

**Mirant MD Ash Management** Mirant MD Ash Management, LLC.

**Mirant Mid-Atlantic** Mirant Mid-Atlantic, LLC and, except where the context indicates otherwise, its subsidiaries.

**Mirant New York** Mirant New York, LLC.

**Mirant North America** Mirant North America, LLC.

**Mirant NY-Gen** Mirant NY-Gen, LLC sold by the Company in the second quarter of 2007.

**Mirant Potomac River** Mirant Potomac River, LLC.

**Mirant Potrero** Mirant Potrero, LLC.

**MW** Megawatt.

**MWh** Megawatt hour.

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**Net Capacity Factor** Actual production of electricity as a percentage of net dependable capacity to produce electricity.

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

**NOL** Net operating loss.

**NOV** Notice of violation.

**NOx** Nitrogen oxides.

**NSR** New source review.

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**NYISO** New York Independent System Operator.

**NYMEX** New York Mercantile Exchange.

**NYSDEC** New York State Department of Environmental Conservation.

**NYSE** New York Stock Exchange.

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

**OTC** Over-the-Counter.

**Ozone Season** The period between May 1 and September 30 of each year.

**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** PJM Interconnection, LLC.

**Plan** The plan of reorganization that was approved in conjunction with the Company's emergence from bankruptcy protection on January 3, 2006.

**PPA** Power purchase agreement.

**Reserve Margin** Excess capacity over peak demand.

**RGGI** Regional Greenhouse Gas Initiative.

**RMR** Reliability-must-run.

**RRI Energy** RRI Energy, Inc.

**RTO** Regional Transmission Organization.

**Scrubbers** Flue gas desulfurization emissions controls.

**Securities Act** Securities Act of 1933, as amended.

**Series A Warrants** Warrants issued on January 3, 2006, with an exercise price of \$21.87 and expiration date of January 3, 2011.

**Series B Warrants** Warrants issued on January 3, 2006, with an exercise price of \$20.54 and expiration date of January 3, 2011.

**SO<sub>2</sub>** Sulfur dioxide.

**Spark Spread** The difference between the price received for electricity generated compared to the market price of the natural gas required to produce the electricity.

**VaR** Value at risk.

**VIE** Variable interest entity.



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**Virginia DEQ** Virginia Department of Environmental Quality.

**Wrightsville** Wrightsville, Arkansas power generating facility sold by the Company in the third quarter of 2005.

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**CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION**

In addition to historical 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. 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, intend, seek, plan, think, anticipate, predict, target, potential or continue or the negative of these terms or other comparable terminology.

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

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

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

environmental regulations that restrict our ability or render it uneconomic to operate our business, including regulations related to the emission of CO<sub>2</sub> and other greenhouse gases;

increased regulation that limits our access to adequate water supplies and landfill options needed to support power generation or that increases the costs of cooling water and handling, transporting and disposing off-site of ash and other byproducts;

changes in market conditions, including developments in the supply, demand, volume and pricing of electricity and other commodities in the energy markets, including efforts to reduce demand for electricity and to encourage the development of renewable sources of electricity, and the extent and timing of the entry of additional competition in our markets;

continued poor economic and financial market conditions, including impacts on financial institutions and other current and potential counterparties and negative impacts on liquidity in the power and fuel markets in which we hedge and transact;

increased credit standards, margin requirements, market volatility or other market conditions that could increase our obligations to post collateral beyond amounts that are expected, including additional collateral costs associated with OTC hedging activities as a result of proposed legislation governing derivative financial instruments;

our inability to access effectively the OTC and exchange-based commodity markets or changes in commodity market conditions and liquidity, including as a result of proposed legislation governing derivative financial instruments, which may affect our ability to engage in asset management, proprietary trading and fuel oil management activities as expected, or result in material gains or losses from open positions;

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



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hazards customary to the power generation industry and the possibility that we may not have adequate insurance to cover losses resulting from such hazards or the inability of our insurers to provide agreed upon coverage;

the expected timing and likelihood of completion of the proposed merger with RRI Energy, including the timing, receipt and terms and conditions of required stockholder, governmental and regulatory approvals that may reduce anticipated benefits or cause the parties to abandon the merger; the ability of the parties to arrange debt financing in an amount sufficient to fund the refinancing contemplated in, and on terms consistent with, the Merger Agreement; the diversion of management's time and attention from our ongoing business during the time we are seeking to complete the merger; the ability to maintain relationships with employees, customers and suppliers; the ability to integrate successfully the businesses and realize cost savings and any other synergies; and the risk that credit ratings of the combined company or its subsidiaries may be different from what the companies expect;

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

changes in the rules used to calculate capacity, energy and ancillary services payments;

legal and political challenges to the rules used to calculate capacity, energy and ancillary services payments;

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

our ability to enter into intermediate and long-term contracts to sell power and to obtain adequate supply and delivery of fuel for our generating facilities, at our required specifications and on terms and prices acceptable to us;

our failure to utilize new or advancements in power generation technologies;

the inability of our operating subsidiaries to generate sufficient cash flow to support our operations;

the potential limitation or loss of our income tax NOLs notwithstanding a continuation of our stockholder rights plan;

our ability to borrow additional funds and access capital markets;

strikes, union activity or labor unrest;

our ability to obtain or develop capable leaders and our ability to retain or replace the services of key employees;

weather and other natural phenomena, including hurricanes and earthquakes;

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the cost and availability of emissions allowances;

curtailment of operations and reduced prices for electricity resulting from transmission constraints;

our ability to execute our business plan in California, including entering into new tolling arrangements for our existing generating facilities;

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our ability to execute our development plan in respect of our Marsh Landing generating facility, including obtaining the permits necessary for construction and operation of the generating facility, securing the necessary project financing for construction of the generating facility and completing the construction of the generating facility by mid-2013;

our relative lack of geographic diversification of revenue sources resulting in concentrated exposure to the Mid-Atlantic market;

the ability of lenders under Mirant North America's revolving credit facility to perform their obligations;

war, terrorist activities, cyberterrorism and inadequate cybersecurity, or the occurrence of a catastrophic loss;

our failure to provide a safe working environment for our employees and visitors thereby increasing our exposure to additional liability, loss of productive time, other costs and a damaged reputation;

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

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

our failure to comply with or monitor provisions of our loan agreements and debt may lead to a breach and, if not remedied, result in an event of default thereunder, which would limit access to needed capital and damage our reputation and relationships with financial institutions; and

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

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

### **Factors that Could Affect Future Performance**

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

In addition to the discussion of certain risks in Management's Discussion and Analysis of Results of Operations and Financial Condition and the accompanying Notes to Mirant's unaudited condensed consolidated financial statements, other factors that could affect our future performance (business, results of operations or financial condition and cash flows) are set forth in our 2009 Annual Report on Form 10-K and elsewhere in this Form 10-Q and are incorporated herein by reference.

### **Certain Terms**

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



**Table of Contents****MIRANT CORPORATION AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)**

	Three Months Ended March 31,	
	2010	2009
	(in millions, except per share data)	
Operating revenues (including unrealized gains of \$363 million and \$255 million, respectively)	\$ 880	\$ 878
Cost of fuel, electricity and other products (including unrealized losses of \$11 million and \$1 million, respectively)	207	271
<b>Gross Margin (excluding depreciation and amortization)</b>	<b>673</b>	<b>607</b>
<b>Operating Expenses:</b>		
Operations and maintenance	166	162
Depreciation and amortization	51	36
Gain on sales of assets, net	(2)	(15)
Total operating expenses, net	215	183
<b>Operating Income</b>	<b>458</b>	<b>424</b>
<b>Other Expense (Income), net:</b>		
Interest expense	50	38
Interest income		(2)
Other, net	1	
Total other expense, net	51	36
<b>Income Before Income Taxes</b>	<b>407</b>	<b>388</b>
Provision for income taxes		8
<b>Net Income</b>	<b>\$ 407</b>	<b>\$ 380</b>
<b>Basic and Diluted EPS:</b>		
Basic EPS	\$ 2.81	\$ 2.62
Diluted EPS	\$ 2.79	\$ 2.62
Weighted average shares outstanding	145	145
Effect of dilutive securities	1	
Weighted average shares outstanding assuming dilution	146	145

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



**Table of Contents****MIRANT CORPORATION AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)**

	At March 31, 2010	At December 31, 2009
	(in millions)	
<b>ASSETS</b>		
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 2,105	\$ 1,953
Funds on deposit	201	181
Receivables, net	367	412
Derivative contract assets	2,837	1,416
Inventories	247	241
Prepaid expenses	133	144
<b>Total current assets</b>	<b>5,890</b>	<b>4,347</b>
<b>Property, Plant and Equipment, net</b>	<b>3,647</b>	<b>3,633</b>
<b>Noncurrent Assets:</b>		
Intangible assets, net	169	171
Derivative contract assets	1,003	599
Deferred income taxes	539	376
Prepaid rent	280	304
Other	90	98
<b>Total noncurrent assets</b>	<b>2,081</b>	<b>1,548</b>
<b>Total Assets</b>	<b>\$ 11,618</b>	<b>\$ 9,528</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
<b>Current Liabilities:</b>		
Current portion of long-term debt	\$ 26	\$ 75
Accounts payable and accrued liabilities	816	718
Derivative contract liabilities	2,394	1,150
Deferred income taxes	539	376
Other	7	4
<b>Total current liabilities</b>	<b>3,782</b>	<b>2,323</b>
<b>Noncurrent Liabilities:</b>		
Long-term debt, net of current portion	2,538	2,556
Derivative contract liabilities	392	163
Pension and postretirement obligations	114	113
Other	69	58
<b>Total noncurrent liabilities</b>	<b>3,113</b>	<b>2,890</b>
<b>Commitments and Contingencies</b>		
<b>Stockholders Equity:</b>		
Preferred stock, par value \$.01 per share, authorized 100,000,000 shares, no shares issued at March 31, 2010 and December 31, 2009		

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Common stock, par value \$.01 per share, authorized 1.5 billion shares, issued 311,866,593 shares and 311,230,486 shares at March 31, 2010 and December 31, 2009, respectively, and outstanding 145,404,164 shares and 144,946,815 shares at March 31, 2010 and December 31, 2009, respectively

December 31, 2009, respectively	3	3
Treasury stock, at cost, 166,462,429 shares and 166,283,671 shares at March 31, 2010 and December 31, 2009, respectively	(5,336)	(5,334)
Additional paid-in capital	11,432	11,427
Accumulated deficit	(1,321)	(1,728)
Accumulated other comprehensive loss	(55)	(53)
<b>Total stockholders' equity</b>	<b>4,723</b>	<b>4,315</b>
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$ 11,618</b>	<b>\$ 9,528</b>

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**  
**AND COMPREHENSIVE INCOME (UNAUDITED)**

	Common Stock	Treasury Stock	Additional Paid-In Capital	Accumulated Deficit (in millions)	Accumulated Other Comprehensive Loss	Total Stockholders Equity
<b>Balance, December 31, 2009</b>	\$ 3	\$ (5,334)	\$ 11,427	\$ (1,728)	\$ (53)	\$ 4,315
Share repurchases		(2)				(2)
Stock-based compensation			5			5
Total stockholders' equity before other comprehensive income						4,318
Net income				407		407
Pension and other postretirement benefits					(2)	(2)
Total other comprehensive income						405
<b>Balance, March 31, 2010</b>	<b>\$ 3</b>	<b>\$ (5,336)</b>	<b>\$ 11,432</b>	<b>\$ (1,321)</b>	<b>\$ (55)</b>	<b>\$ 4,723</b>

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

**Table of Contents****MIRANT CORPORATION AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)**

	<b>Three Months Ended March 31, 2010      2009 (in millions)</b>	
<b>Cash Flows from Operating Activities:</b>		
Net income	\$ 407	\$ 380
Adjustments to reconcile net income and changes in other operating assets and liabilities to net cash provided by operating activities:		
Depreciation and amortization	52	37
Gain on sales of assets, net	(2)	(15)
Unrealized gains on derivative contracts, net	(352)	(254)
Stock-based compensation expense	5	5
Lower of cost or market inventory adjustments	8	10
Funds on deposit	(14)	(3)
Changes in other operating assets and liabilities	198	111
<b>Total adjustments</b>	<b>(105)</b>	<b>(109)</b>
Net cash provided by operating activities of continuing operations	302	271
Net cash provided by operating activities of discontinued operations	2	2
<b>Net cash provided by operating activities</b>	<b>304</b>	<b>273</b>
<b>Cash Flows from Investing Activities:</b>		
Capital expenditures	(85)	(171)
Proceeds from the sales of assets	2	15
Capital contributions		(4)
Restricted deposit payments and other		1
<b>Net cash used in investing activities</b>	<b>(83)</b>	<b>(159)</b>
<b>Cash Flows from Financing Activities:</b>		
Repayment of long-term debt	(67)	(39)
Share repurchases	(2)	(1)
<b>Net cash used in financing activities</b>	<b>(69)</b>	<b>(40)</b>
<b>Net Increase in Cash and Cash Equivalents</b>	<b>152</b>	<b>74</b>
<b>Cash and Cash Equivalents, beginning of period</b>	<b>1,953</b>	<b>1,831</b>
<b>Cash and Cash Equivalents, end of period</b>	<b>\$ 2,105</b>	<b>\$ 1,905</b>
<b>Supplemental Cash Flow Disclosures:</b>		
Cash paid for interest, net of amounts capitalized	\$ 2	\$ 1
Cash paid for claims and professional fees from bankruptcy	\$	\$ 1

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



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**MIRANT CORPORATION AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

**A. Description of Business and Accounting and Reporting Policies**

Mirant is a competitive energy company that produces and sells electricity in the United States. The Company owns or leases 10,076 MW of net electric generating capacity in the Mid-Atlantic and Northeast regions and in California. Mirant also operates an integrated asset management and energy marketing organization based in Atlanta, Georgia.

***Proposed Merger with RRI Energy***

On April 11, 2010, Mirant entered into the Merger Agreement with RRI Energy and RRI Energy Holdings, Inc. ( Merger Sub ), a direct and wholly-owned subsidiary of RRI Energy. Upon the terms and subject to the conditions set forth in the Merger Agreement, which has been unanimously approved by each of the boards of directors of Mirant and RRI Energy, Merger Sub will merge with and into Mirant, with Mirant continuing as the surviving corporation and a wholly-owned subsidiary of RRI Energy. The merger is intended to qualify as a tax-free reorganization under the Internal Revenue Code of 1986, as amended, so that none of RRI Energy, Merger Sub, Mirant or any of the Mirant stockholders generally will recognize any gain or loss in the transaction, except that Mirant stockholders will recognize gain with respect to cash received in lieu of fractional shares of RRI Energy common stock. Pursuant to the Merger Agreement, upon the closing of the merger, each issued and outstanding share of Mirant common stock, including grants of restricted common stock, will automatically be converted into shares of common stock of RRI Energy based on the Exchange Ratio. Additionally, upon the closing of the merger, RRI Energy will be renamed GenOn Energy. Mirant stock options and other equity awards will generally convert upon completion of the merger into stock options and equity awards with respect to RRI Energy common stock, after giving effect to the Exchange Ratio. As a result of the merger, Mirant stockholders will own approximately 54% of the equity of the combined company and RRI Energy stockholders will own approximately 46%.

Completion of the merger is subject to various customary conditions, including, among others, (i) approval by RRI Energy stockholders of the issuance of RRI Energy common stock in the merger, (ii) adoption of the Merger Agreement by Mirant stockholders, (iii) effectiveness of the registration statement for the RRI Energy common stock to be issued in the merger, (iv) approval of the listing on the NYSE of the RRI Energy common stock to be issued in the merger, (v) expiration or termination of the applicable Hart-Scott-Rodino Act waiting period, (vi) receipt of all required regulatory approvals and (vii) consummation by GenOn Energy of debt financings in an amount sufficient to fund the refinancing transactions contemplated by, and on terms consistent with, the Merger Agreement.

Among the refinancing transactions noted above, the completion of the merger is conditioned on GenOn Energy consummating certain debt financing transactions, including securing a new revolving credit facility. The new GenOn Energy debt financing and revolving credit facility will be used, in part, to redeem the Mirant North America senior notes and to repay and terminate the Mirant North America term loan and revolving credit facility. See Note C for additional information on Mirant North America's debt.

Both Mirant and RRI Energy are subject to restrictions on their ability to solicit alternative acquisition proposals, provide information and engage in discussions with third parties, except under limited circumstances to permit Mirant's and RRI Energy's boards of directors to comply with their fiduciary duties. The Merger Agreement contains certain termination rights for both

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Mirant and RRI Energy, and further provides that, upon termination of the Merger Agreement under specified circumstances, Mirant or RRI Energy may be required to pay the other a termination fee of either \$37.15 million or \$57.78 million. Further information concerning the proposed merger will be included in a joint proxy statement/prospectus contained in the registration statement on Form S-4 to be filed by RRI Energy with the SEC.

Provided neither has experienced an ownership change between December 31, 2009, and the closing date of the merger, each of Mirant and RRI Energy is expected separately to experience an ownership change, as defined in Section ( § ) 382 of the Internal Revenue Code of 1986, on the merger date as a consequence of the merger. Immediately following the merger, Mirant and RRI Energy will be members of the same consolidated federal income tax group. The ability of this consolidated tax group to deduct the pre-merger NOL carry forwards of Mirant and RRI Energy against the post-merger taxable income of the group will be substantially limited as a result of these ownership changes.

The merger is expected to be completed by the end of 2010. Prior to the completion of the merger, Mirant and RRI Energy will continue to operate as independent companies. Except for specific references to the proposed merger, the disclosures contained in this report on Form 10-Q relate solely to Mirant.

## ***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 notes thereto included in the Company's 2009 Annual Report on Form 10-K.

The accompanying unaudited condensed consolidated financial statements include the accounts of Mirant and its wholly-owned and controlled majority-owned subsidiaries. The consolidated financial statements have been prepared from records maintained by Mirant and its subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation. As of March 31, 2010, substantially all of Mirant's subsidiaries are wholly-owned and located in the United States.

The preparation of the unaudited condensed consolidated financial statements in conformity with GAAP requires management to make various estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities at the date of the unaudited condensed consolidated financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates. Certain prior period amounts have been reclassified to conform to the current period financial statement presentation.

The Company evaluates events that occur after its balance sheet date but before its financial statements are issued for potential recognition or disclosure. Based on the evaluation, the Company determined that there were no material subsequent events for recognition or disclosure other than those disclosed herein.

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***MC Asset Recovery***

MC Asset Recovery, although wholly-owned by Mirant, is governed by managers who are independent of Mirant and its other subsidiaries. MC Asset Recovery is considered a VIE because of the Company's potential tax obligations which could arise from potential recoveries from legal actions that MC Asset Recovery is pursuing. Prior to January 1, 2010, under previous accounting guidance, Mirant was considered the primary beneficiary of MC Asset Recovery and included the VIE in the Company's consolidated financial statements. Based on the revised guidance related to accounting for VIEs that became effective on January 1, 2010, the Company reassessed its relationship with MC Asset Recovery and determined that the Company is no longer deemed to be the primary beneficiary. The characteristics of a primary beneficiary, as defined in the accounting guidance are: (a) the entity must have the power to direct the activities or make decisions that most significantly affect the VIE's economic performance and (b) the entity must have an obligation to absorb losses or receive benefits that could be significant to the VIE. As MC Asset Recovery is governed by an independent Board of Managers that has sole power and control over the decisions that affect MC Asset Recovery's economic performance, the Company does not meet the characteristics of a primary beneficiary. Additionally, the Company no longer has any obligation to provide funding to MC Asset Recovery. However, under the Plan, the Company is responsible for the taxes owed, if any, on any net recoveries up to \$175 million obtained by MC Asset Recovery. The Company currently retains any tax obligations arising from the next approximately \$74 million of potential recoveries by MC Asset Recovery. As a result of the initial application of this accounting guidance, the Company deconsolidated MC Asset Recovery effective January 1, 2010, and adjusted prior periods to conform to the current presentation. See Note J for further discussion of MC Asset Recovery.

At March 31, 2010 and December 31, 2009, MC Asset Recovery had current assets and current liabilities of \$38 million and \$39 million, respectively, which are not included in the Company's unaudited condensed consolidated balance sheets. For both the three months ended March 31, 2010 and 2009, MC Asset Recovery had operations and maintenance expense of less than \$1 million, which is not included in the Company's unaudited condensed consolidated statements of operations. The effect of deconsolidation on the unaudited condensed consolidated statement of cash flows for the three months ended March 31, 2009, was to present \$4 million of operating costs of MC Asset Recovery which were funded by the Company, and had previously been appropriately included in operating activities, as an investing activity. The deconsolidation resulted in an increase in net cash provided by operating activities and an increase in net cash used in investing activities on the Company's unaudited condensed consolidated statement of cash flows for that period. There was no effect on the Company's unaudited condensed consolidated statement of cash flows for the three months ended March 31, 2010.

***Inventories***

Inventories consist primarily of fuel oil, coal, materials and supplies and purchased emissions allowances. Inventory is generally stated at the lower of cost or market value and is expensed on a weighted average cost basis. Fuel inventory is removed from the inventory account as it is used in the generation of electricity. Materials and supplies are removed from the inventory account when they are used for repairs, maintenance or capital projects. Purchased emissions allowances are removed from inventory and charged to cost of fuel, electricity and other products in the accompanying unaudited condensed consolidated statements of operations as they are utilized for emissions volumes.



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Inventories were comprised of the following (in millions):

	At March 31, 2010	At December 31, 2009
Fuel inventory:		
Fuel oil	\$ 128	\$ 99
Coal	31	52
Other	1	1
Materials and supplies	67	66
Purchased emissions allowances	20	23
<b>Total inventories</b>	<b>\$ 247</b>	<b>\$ 241</b>

**Capitalization of Interest Cost**

Mirant capitalizes interest on projects during their construction period. The Company determines which debt instruments represent a reasonable measure of the cost of financing construction in terms of interest costs incurred that otherwise could have been avoided. These debt instruments and associated interest costs are included in the calculation of the weighted average interest rate used for determining the capitalization rate. Once a project is placed in service, capitalized interest, as a component of the total cost of the construction, is amortized over the estimated useful life of the asset constructed.

For the three months ended March 31, 2010 and 2009, the Company incurred the following interest costs (in millions):

	Three Months Ended March 31,	
	2010	2009
Total interest costs	\$ 52	\$ 53
Capitalized and included in property, plant and equipment, net	(2)	(15)
<b>Interest expense</b>	<b>\$ 50</b>	<b>\$ 38</b>

The amounts of capitalized interest above include interest accrued. For the three months ended March 31, 2010 and 2009, cash paid for interest was \$2 million and \$3 million, respectively, of which \$0 and \$2 million, respectively, were capitalized.

**Development Costs**

Mirant capitalizes project development costs for generating facilities once it is probable that the project will be completed. These costs include professional fees, permits and other third party costs directly associated with the development of a new project. The capitalized costs are depreciated over the life of the asset or charged to operating expense if the completion of the project is no longer probable. Project development costs are expensed when incurred until the probable threshold is met.

**Recently Adopted Accounting Guidance**

On June 12, 2009, the FASB issued guidance which requires the Company to perform an analysis to determine whether the Company's variable interest gives it a controlling financial interest in a VIE. This analysis should identify the primary beneficiary of a VIE. This guidance also requires ongoing reassessments of whether an enterprise is the primary beneficiary of a VIE and enhances the disclosures to provide more information regarding the Company's involvement



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in a VIE. This guidance is effective for fiscal years beginning after November 15, 2009. The Company adopted this accounting guidance on January 1, 2010, and as a result, deconsolidated MC Asset Recovery. See Note J for further details on MC Asset Recovery.

On January 21, 2010, the FASB issued guidance that enhances the disclosures for fair value measurements. The guidance requires the Company to disclose separately the amount of significant transfers between Level 1 and Level 2 of the fair value hierarchy, the reasons for the significant transfers, the valuation techniques and inputs used and the classes of assets and liabilities accounted for at fair value on a recurring basis. The Company adopted this accounting guidance for the quarter ended March 31, 2010. See Note B for additional information on fair value measurements.

On February 25, 2010, the FASB issued guidance that amends its requirement for public companies to disclose the date through which the Company has evaluated subsequent events and whether that date represents the date the financial statements were issued or were available to be issued. The Company adopted the subsequent event disclosure requirements for the quarter ended March 31, 2010, and the adoption had no effect on the Company's unaudited condensed consolidated statements of operations, financial position or cash flows. The Company continues to evaluate subsequent events through the date when the financial statements are issued.

### ***New Accounting Guidance Not Yet Adopted at March 31, 2010***

On January 21, 2010, the FASB issued guidance that requires a reconciliation for Level 3 fair value measurements, including presenting separately the amount of purchases, issuances and settlements on a gross basis. The Company currently discloses the amount of purchases, issuances and settlements on a net basis within its roll forward of Level 3 fair value measurements in Note B. These disclosure requirements are effective for fiscal years beginning after December 15, 2010. The Company will present these disclosures in its Form 10-Q for the quarter ended March 31, 2011.

## **B. Financial Instruments**

### ***Derivative Financial Instruments***

In connection with the business of generating electricity, the Company is exposed to energy commodity price risk associated with the acquisition of fuel and emissions allowances needed to generate electricity, the price of electricity produced and sold and the fair value of fuel inventories. In addition, the open positions in the Company's trading activities, comprised of proprietary trading and fuel oil management activities, expose it to risks associated with changes in energy commodity prices. The Company, through its asset management activities, enters into a variety of exchange-traded and OTC energy and energy-related derivative financial instruments, such as forward contracts, futures contracts, option contracts and financial swap agreements to manage exposure to commodity price risks. These contracts have varying terms and durations, which range from a few days to years, depending on the instrument. The Company's proprietary trading activities also utilize similar derivative financial instruments in markets where the Company has a physical presence to attempt to generate incremental gross margin. The Company's fuel oil management activities use derivative financial instruments to hedge economically the fair value of the Company's physical fuel oil inventories and to optimize the approximately three million barrels of storage capacity that the Company owns or leases.

Changes in the fair value and settlements of derivative financial instruments used to hedge electricity economically are reflected in operating revenue, and changes in the fair value and settlements of derivative financial instruments used to hedge fuel economically are reflected in cost of fuel, electricity and other products in the accompanying unaudited condensed consolidated

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statements of operations. Most of the Company's long-term coal agreements are not required to be recorded at fair value because of the Company's election of normal purchases treatment under the accounting guidance for derivative financial instruments. As such, these contracts are not included in derivative contract assets and liabilities in the accompanying unaudited condensed consolidated balance sheets and are not included in the tables below. Changes in the fair value and settlements of derivative contracts for trading activities, comprised of proprietary trading and fuel oil management, are recorded on a net basis as operating revenue in the accompanying unaudited condensed consolidated statements of operations. As of March 31, 2010, the Company does not have any derivative financial instruments for which hedge accounting has been elected and option contracts comprise less than 1% of the Company's net derivative contract assets.

The Company also considers risks associated with interest rates, counterparty credit and Mirant's own non-performance risk when valuing its derivative financial instruments. The nominal value of the derivative contract assets and liabilities is discounted to account for time value using a LIBOR forward interest rate curve based on the tenor of the Company's transactions being valued.

The following table presents the fair value of each class of derivative financial instruments related to commodity price risk (in millions):

Commodity Derivative Contracts	Balance Sheet Location	Fair Value at	
		March 31, 2010	December 31, 2009
<b>Asset management:</b>			
Power	Derivative contract assets	\$ 1,836	\$ 1,178
Fuel	Derivative contract assets	27	26
Total asset management		1,863	1,204
Trading activities	Derivative contract assets	1,977	811
Total derivative contract assets		3,840	2,015
<b>Asset management:</b>			
Power	Derivative contract liabilities	(793)	(488)
Fuel	Derivative contract liabilities	(26)	(15)
Total asset management		(819)	(503)
Trading activities	Derivative contract liabilities	(1,967)	(810)
Total derivative contract liabilities		(2,786)	(1,313)
<b>Asset management, net:</b>			
Power		1,043	690
Fuel		1	11
Total asset management		1,044	701
Trading activities, net		10	1
Total derivative contracts, net		\$ 1,054	\$ 702

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The following tables present the net gains (losses) for derivative financial instruments recognized in income in the unaudited condensed consolidated statements of operations (in millions):

	Location of Net Gains (Losses) Recognized in Income	Amount of Net Gains (Losses) Recognized in Income for the Three Months Ended March 31, 2010		
		Realized	Unrealized	Total
		<b>Commodity Derivative Contracts</b>		
Asset management	Operating revenues	\$ 85	\$ 353	\$ 438
Trading activities	Operating revenues	19	10	29
Asset management	Cost of fuel, electricity and other products	(15)	(11)	(26)
Total		\$ 89	\$ 352	\$ 441

	Location of Net Gains (Losses) Recognized in Income	Amount of Net Gains (Losses) Recognized in Income for the Three Months Ended March 31, 2009		
		Realized	Unrealized	Total
		<b>Commodity Derivative Contracts</b>		
Asset management	Operating revenues	\$ 136	\$ 270	\$ 406
Trading activities	Operating revenues	28	(15)	13
Asset management	Cost of fuel, electricity and other products	(16)	(1)	(17)
Total		\$ 148	\$ 254	\$ 402

The following table presents the notional quantity on long (short) positions for derivative financial instruments on a gross and net basis at March 31, 2010 (in equivalent MWh):

Commodity Type:	Derivative Contract Assets	Notional Quantity Derivative Contract Liabilities (in millions)	Net Derivative Contracts
	Power <sup>1</sup>	(173)	133
Natural gas	(75)	75	
Fuel oil	3	(3)	
Coal	2	1	3
Total	(243)	206	(37)

<sup>1</sup> Includes MWh equivalent of natural gas transactions used to hedge power economically.

**Fair Value Hierarchy**

Based on the observability of the inputs used in the valuation techniques for fair value measurement, the Company is required to classify recorded fair value measurements according to the fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurement). The fair value measurement inputs the Company uses vary from readily observable prices for exchange-traded instruments to price curves that cannot be validated through

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external pricing sources. The Company's financial assets and liabilities carried at fair value in the unaudited condensed consolidated financial statements are classified in three categories based on the inputs used.

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In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls must be determined based on the lowest level input that is significant to the fair value measurement. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and consideration of factors specific to the asset or liability.

The Company's transactions in Level 1 of the fair value hierarchy primarily consist of natural gas and crude oil futures traded on the NYMEX and swaps cleared against the NYMEX prices. The Company's transactions in Level 2 of the fair value hierarchy primarily include non-exchange-traded derivatives such as OTC forwards, swaps and options. The Company's transactions in Level 3 of the fair value hierarchy primarily consist of financial power swaps in less liquid locations and long-term coal agreements that do not qualify for normal purchases treatment. The Company did not have any transfers between Levels 1 and 2 for the three months ended March 31, 2010.

The following tables set forth by level within the fair value hierarchy the Company's financial assets and liabilities that were accounted for at fair value on a recurring basis as of March 31, 2010, by class and tenor, respectively. At March 31, 2010, the Company's only financial assets and liabilities measured at fair value on a recurring basis are derivative financial instruments.

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The following table presents financial assets and liabilities accounted for at fair value on a recurring basis as of March 31, 2010, on a gross and net basis by class (in millions):

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)	Total
<b>Assets:</b>				
Commodity contracts asset management:				
Power	\$ 9	\$ 1,803	\$ 24	\$ 1,836
Fuel	8	5	14	27
<b>Total commodity contracts asset management</b>	<b>17</b>	<b>1,808</b>	<b>38</b>	<b>1,863</b>
Commodity contracts trading activities	966	951	60	1,977
<b>Total derivative contract assets</b>	<b>983</b>	<b>2,759</b>	<b>98</b>	<b>3,840</b>
<b>Liabilities:</b>				
Commodity contracts asset management:				
Power	(43)	(744)	(6)	(793)
Fuel	(25)	(1)		(26)
<b>Total commodity contracts asset management</b>	<b>(68)</b>	<b>(745)</b>	<b>(6)</b>	<b>(819)</b>
Commodity contracts trading activities	(961)	(990)	(16)	(1,967)
<b>Total derivative contract liabilities</b>	<b>(1,029)</b>	<b>(1,735)</b>	<b>(22)</b>	<b>(2,786)</b>
<b>Net:</b>				
Commodity contracts asset management:				
Power	(34)	1,059	18	1,043
Fuel	(17)	4	14	1
<b>Total commodity contracts asset management</b>	<b>(51)</b>	<b>1,063</b>	<b>32</b>	<b>1,044</b>
Commodity contracts trading activities, net	5	(39)	44	10
<b>Total derivative contract assets and liabilities, net</b>	<b>\$ (46)</b>	<b>\$ 1,024</b>	<b>\$ 76</b>	<b>\$ 1,054</b>



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The following table presents financial assets and liabilities accounted for at fair value on a recurring basis as of December 31, 2009, on a gross and net basis by class (in millions):

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)	Total
<b>Assets:</b>				
Commodity contracts asset management:				
Power	\$ 2	\$ 1,162	\$ 14	\$ 1,178
Fuel	11	8	7	26
<b>Total commodity contracts asset management</b>	<b>13</b>	<b>1,170</b>	<b>21</b>	<b>1,204</b>
Commodity contracts trading activities	374	415	22	811
<b>Total derivative contract assets</b>	<b>387</b>	<b>1,585</b>	<b>43</b>	<b>2,015</b>
<b>Liabilities:</b>				
Commodity contracts asset management:				
Power	(11)	(475)	(2)	(488)
Fuel	(14)	(1)		(15)
<b>Total commodity contracts asset management</b>	<b>(25)</b>	<b>(476)</b>	<b>(2)</b>	<b>(503)</b>
Commodity contracts trading activities	(368)	(433)	(9)	(810)
<b>Total derivative contract liabilities</b>	<b>(393)</b>	<b>(909)</b>	<b>(11)</b>	<b>(1,313)</b>
<b>Net:</b>				
Commodity contracts asset management:				
Power	(9)	687	12	690
Fuel	(3)	7	7	11
<b>Total commodity contracts asset management</b>	<b>(12)</b>	<b>694</b>	<b>19</b>	<b>701</b>
Commodity contracts trading activities, net	6	(18)	13	1
<b>Total derivative contract assets and liabilities, net</b>	<b>\$ (6)</b>	<b>\$ 676</b>	<b>\$ 32</b>	<b>\$ 702</b>

The following table presents net financial assets and liabilities accounted for at fair value on a recurring basis as of March 31, 2010, by tenor (in millions):

	Asset Management	Commodity Contracts Trading Activities	Total
2010	\$ 349	\$ 6	\$ 355
2011	230	9	239
2012	164	(5)	159
2013	153		153
2014	148		148

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Thereafter

Total	\$ 1,044	\$ 10	\$ 1,054
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The volumetric weighted average maturity, or weighted average tenor, of the asset management derivative contract portfolio at March 31, 2010 and December 31, 2009, was approximately 21 months and 22 months, respectively. The volumetric weighted average maturity, or weighted average tenor, of the trading derivative contract portfolio at March 31, 2010 and December 31, 2009, was approximately 11 months and 9 months, respectively.

**Level 3 Disclosures**

The following tables present a roll forward of fair values of net assets and liabilities categorized in Level 3 for the three months ended March 31, 2010 and 2009, and the amount included in income for the three months ended March 31, 2010 and 2009 (in millions):

	<b>Asset Management</b>	<b>Commodity Contracts Trading Activities</b>	<b>Total</b>
Fair value of assets and liabilities categorized in Level 3 at January 1, 2010	\$ 19	\$ 13	\$ 32
Total gains or losses (realized/unrealized):			
Included in income of existing contracts (or changes in net assets or liabilities) <sup>1</sup>	(11)	21	10
Purchases, issuances and settlements <sup>2</sup>	(13)	10	(3)
Transfers out of Level 3 <sup>3</sup>	37		37
Fair value of assets and liabilities categorized in Level 3 at March 31, 2010	\$ 32	\$ 44	\$ 76

	<b>Asset Management</b>	<b>Commodity Contracts Trading Activities</b>	<b>Total</b>
Fair value of assets and liabilities categorized in Level 3 at January 1, 2009	\$ 24	\$ 22	\$ 46
Total gains (realized/unrealized):			
Included in income of existing contracts (or changes in net assets or liabilities) <sup>1</sup>	6	2	8
Purchases, issuances and settlements <sup>2</sup>	9	9	18
Transfers in and/or out of Level 3 <sup>3</sup>			
Fair value of assets and liabilities categorized in Level 3 at March 31, 2009	\$ 39	\$ 33	\$ 72

<sup>1</sup> Reflects the total gains or losses on contracts included in Level 3 at the beginning of each quarterly reporting period and at the end of each quarterly reporting period, and contracts entered into during each quarterly reporting period that remain at the end of each quarterly reporting period.

<sup>2</sup> Represents the total cash settlements of contracts during each quarterly reporting period that existed at the beginning of each quarterly reporting period.

<sup>3</sup> Denotes the total contracts that existed at the beginning of each quarterly reporting period and were still held at the end of each quarterly reporting period that were either previously categorized as a higher level for which the inputs to the model became unobservable or assets and liabilities that were previously classified as Level 3 for which the lowest significant input became observable during each quarterly reporting period. Amounts reflect fair value as of the end of each quarterly reporting period.

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	<b>Three Months Ended March 31, 2010</b>		
	<b>Operating Revenues</b>	<b>Cost of Fuel</b>	<b>Total</b>
Gains included in income	\$ 38	\$ 6	\$ 44
Gains included in income (or changes in net assets) attributable to the change in unrealized gains or losses relating to assets still held at March 31, 2010	\$ 38	\$ 6	\$ 44

	<b>Three Months Ended March 31, 2009</b>		
	<b>Operating Revenues</b>	<b>Cost of Fuel</b>	<b>Total</b>
Gains included in income	\$ 26	\$	\$ 26
Gains included in income (or changes in net assets) attributable to the change in unrealized gains or losses relating to assets still held at March 31, 2009	\$ 28	\$	\$ 28

***Counterparty Credit Concentration Risk***

The Company is exposed to the default risk of the counterparties with which the Company transacts. The Company manages its credit risk by entering into master netting agreements and requiring counterparties to post cash collateral or other credit enhancements based on the net exposure and the credit standing of the counterparty. The Company also has non-collateralized power hedges entered into by Mirant Mid-Atlantic. These transactions are senior unsecured obligations of Mirant Mid-Atlantic and the counterparties and do not require either party to post cash collateral for initial margin or for securing exposure as a result of changes in power or natural gas prices. The Company's credit reserve on its derivative contract assets was \$17 million and \$13 million at March 31, 2010 and December 31, 2009, respectively.

At March 31, 2010 and December 31, 2009, approximately \$3 million and \$12 million, respectively, of cash collateral posted to the Company by counterparties under master netting agreements were included in accounts payable and accrued liabilities on the unaudited condensed consolidated balance sheets.

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The Company also monitors counterparty credit concentration risk on both an individual basis and a group counterparty basis. The following tables highlight the credit quality and the balance sheet settlement exposures related to these activities (dollars in millions):

Credit Rating Equivalent	At March 31, 2010				
	Gross Exposure Before Collateral <sup>1</sup>	Net Exposure Before Collateral <sup>2</sup>	Collateral <sup>3</sup>	Exposure Net of Collateral	% of Net Exposure
Clearing and Exchange	\$ 2,048	\$ 183	\$ 183	\$	
Investment Grade:					
Financial institutions	1,301	844	3	841	84%
Energy companies	724	164	35	129	13%
Other	2	1		1	
Non-investment Grade:					
Financial institutions					
Energy companies	8	8		8	1%
Other					
No External Ratings:					
Internally-rated investment grade	20	14		14	1%
Internally-rated non-investment grade	8	8		8	1%
Not internally rated					
Total	\$ 4,111	\$ 1,222	\$ 221	\$ 1,001	100%

Credit Rating Equivalent	At December 31, 2009				
	Gross Exposure Before Collateral <sup>1</sup>	Net Exposure Before Collateral <sup>2</sup>	Collateral <sup>3</sup>	Exposure Net of Collateral	% of Net Exposure
Clearing and Exchange	\$ 790	\$ 96	\$ 96	\$	
Investment Grade:					
Financial institutions	997	646	12	634	81%
Energy companies	497	125	13	112	14%
Other					
Non-investment Grade:					
Financial institutions					
Energy companies					
Other					
No External Ratings:					
Internally-rated investment grade	34	27		27	4%
Internally-rated non-investment grade	8	8		8	1%
Not internally rated					
Total	\$ 2,326	\$ 902	\$ 121	\$ 781	100%

<sup>1</sup> Gross exposure before collateral represents credit exposure, including realized and unrealized transactions, before applying the terms of master netting agreements with counterparties and netting of transactions with clearing brokers and exchanges. The table excludes amounts related to contracts classified as normal purchases/normal sales and non-derivative contractual commitments that are not recorded at fair value in the unaudited condensed consolidated balance sheets, except for any related accounts receivable. Such contractual commitments contain credit and economic risk if a counterparty does not perform. Non-performance could have a material adverse effect on the future results of operations, financial condition and cash flows.

<sup>2</sup> Net exposure before collateral represents the credit exposure, including both realized and unrealized transactions, after applying the terms of master netting agreements.

<sup>3</sup> Collateral includes cash and letters of credit received from counterparties.



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The Company had aggregate credit exposure to three investment grade counterparties that each represented an exposure of more than 10% of total credit exposure, net of collateral and that totaled \$617 million and \$495 million at March 31, 2010 and December 31, 2009, respectively.

**Mirant Credit Risk**

The Company's standard industry contracts contain credit-risk-related contingent features such as ratings-related thresholds whereby the Company would be required to post additional cash collateral or letters of credit as a result of a credit event, including a downgrade. Additionally, some of the Company's contracts contain adequate assurance language, which is generally subjective in nature, but would most likely require the Company to post additional cash collateral or letters of credit as a result of a credit event, including a downgrade. However, as a result of the Company's current credit rating, the Company is typically required to post collateral in the normal course of business to offset completely its net liability positions, after applying the terms of master netting agreements. At March 31, 2010, the fair value of the Company's financial instruments with credit-risk-related contingent features in a net liability position was approximately \$65 million for which the Company has posted collateral of \$59 million, including cash and letters of credit, to offset substantially the position.

In addition, at March 31, 2010 and December 31, 2009, the Company had approximately \$1 million and \$25 million, respectively, of cash collateral posted with counterparties under master netting agreements that was included in funds on deposit on the unaudited condensed consolidated balance sheets.

**Fair Values of Other Financial Instruments**

Other financial instruments recorded at fair value include cash and interest-bearing cash equivalents. The following methods are used by Mirant to estimate the fair value of financial instruments that are not otherwise carried at fair value on the accompanying unaudited condensed consolidated balance sheets:

*Notes and Other Receivables.* The fair value of Mirant's notes receivable are estimated using interest rates it would receive currently for similar types of arrangements.

*Long- and Short-Term Debt.* The fair value of Mirant's long- and short-term debt is estimated using quoted market prices, when available.

The carrying amounts and fair values of Mirant's financial instruments are as follows (in millions):

	At March 31, 2010		At December 31, 2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<b>Assets:</b>				
Notes and other receivables	\$ 1	\$ 1	\$ 2	\$ 2
<b>Liabilities:</b>				
Long- and short-term debt	\$ 2,564	\$ 2,496	\$ 2,631	\$ 2,559

**Table of Contents****C. Long-Term Debt**

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

	At March 31, 2010	At December 31, 2009	Interest Rate	Secured/ Unsecured
<b>Long-term debt:</b>				
Mirant Americas Generation:				
Senior notes:				
Due May 2011	\$ 535	\$ 535	8.30%	Unsecured
Due October 2021	450	450	8.50%	Unsecured
Due May 2031	400	400	9.125%	Unsecured
Unamortized debt premiums (discounts), net	(3)	(3)		
Mirant North America:				
Senior secured term loan, due 2010 to 2013	307	373	LIBOR + 1.75% <sup>1</sup>	Secured
Senior notes, due December 2013	850	850	7.375%	Unsecured
Capital leases, due 2010 to 2015	25	26	7.375% -8.19%	
<b>Total</b>	<b>2,564</b>	<b>2,631</b>		
Less: current portion of long-term debt	(26)	(75)		
<b>Total long-term debt, net of current portion</b>	<b>\$ 2,538</b>	<b>\$ 2,556</b>		

<sup>1</sup> The weighted average interest rate for the periods ended March 31, 2010 and December 31, 2009, was 1.98% and 2.13%, respectively.

**Mirant Americas Generation Senior Notes**

The senior notes are senior unsecured obligations of Mirant Americas Generation having no recourse to any subsidiary or affiliate of Mirant Americas Generation.

**Mirant North America 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 a senior secured term loan due January 2013 and a senior secured revolving credit facility due January 2012. The senior secured term loan had an initial principal balance of \$700 million, which has amortized to \$307 million as of March 31, 2010. 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. During 2008, Mirant North America transferred to the senior secured revolving credit facility approximately \$78 million of letters of credit previously supported by the cash collateral account and withdrew approximately \$78 million from the cash collateral account, thereby reducing the cash collateral account to approximately \$122 million. At March 31, 2010, the cash collateral balance was approximately \$124 million as a result of interest earned on the invested cash balances. At March 31, 2010, there were approximately \$120 million of letters of credit outstanding under the senior secured revolving credit facility and \$123 million of letters of credit outstanding under the senior secured term loan cash collateral account. At March 31, 2010, \$635 million was available under the senior secured revolving credit facility and less than \$1 million was available under the senior secured term loan for cash draws or for the issuance of letters of credit. Although the senior secured revolving credit facility has lender commitments of \$800 million, availability thereunder reflects a \$45 million effective reduction as a result of the bankruptcy filing of Lehman Commercial Paper, Inc., a lender under the facility.



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In addition to quarterly principal installments, which are currently \$0.8 million, Mirant North America is required to make annual principal prepayments under the senior secured term loan equal to a specified percentage of its excess free cash flow, which is based on adjusted EBITDA less capital expenditures and as further defined in the loan agreement. On March 10, 2010, Mirant North America made a mandatory principal prepayment of approximately \$66 million on the term loan. At March 31, 2010, the current estimate of the mandatory principal prepayment of the term loan in March 2011 is approximately \$18 million. This amount has been reclassified from long-term debt to current portion of long-term debt at March 31, 2010.

The senior secured credit facilities are senior secured obligations of Mirant North America. In addition, certain subsidiaries of Mirant North America (not including Mirant Mid-Atlantic or Mirant Energy Trading) have jointly and severally guaranteed, as senior secured obligations, the senior secured credit facilities. The senior secured credit facilities have no recourse to any other Mirant entities.

See Note A for a discussion of the contemplated repayment of the term loan and repayment and termination of the revolving credit facility in connection with the consummation of the proposed merger with RRI Energy.

### ***Mirant North America Senior Notes***

The senior notes due in 2013 are senior unsecured obligations of Mirant North America. In addition, certain subsidiaries of Mirant North America (not including Mirant Mid-Atlantic or Mirant Energy Trading) have jointly and severally guaranteed, as senior unsecured obligations, the senior notes. The Mirant North America senior notes have no recourse to any other Mirant entities, including Mirant Americas Generation.

See Note A for a discussion of the contemplated redemption of the senior notes in connection with the consummation of the proposed merger with RRI Energy.

## **D. Guarantees and Letters of Credit**

Mirant generally conducts its business through various operating subsidiaries which enter into contracts as a routine part of their business activities. In certain instances, the contractual obligations of such subsidiaries are guaranteed by, or otherwise supported by, Mirant or another of its subsidiaries, including by letters of credit issued under the credit facilities of Mirant North America.

In addition, Mirant and its subsidiaries enter into various contracts that include indemnification and guarantee provisions. Examples of these contracts include financing and lease arrangements, purchase and sale agreements, commodity purchase and sale agreements, construction agreements and agreements with vendors. Although the primary obligation of Mirant or a subsidiary under such contracts is to pay money or render performance, such contracts may include obligations to indemnify the counterparty for damages arising from the breach thereof and, in certain instances, other existing or potential liabilities. In many cases, the Company's maximum potential liability cannot be estimated because some of the underlying agreements contain no limits on potential liability.

Upon issuance or modification of a guarantee, the Company determines if the obligation is subject to initial recognition and measurement of a liability and/or disclosure of the nature and terms of the guarantee. Generally, guarantees of the performance of a third party are subject to the recognition and measurement, as well as the disclosure provisions of the accounting guidance related to guarantees. Such guarantees must initially be recorded at fair value, as determined in accordance with the accounting guidance. The Company did not have any guarantees at March 31, 2010, that met the recognition requirements of the accounting guidance.

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For the three months ended March 31, 2010, Mirant had net increases to its guarantees of approximately \$48 million, which included net increases of approximately \$44 million to its letters of credit, approximately \$3 million to other guarantees and approximately \$1 million to its surety bonds.

This Note should be read in conjunction with the complete description under Note 7, *Commitments and Contingencies - Guarantees*, to the Company's financial statements in its 2009 Annual Report on Form 10-K.

**E. Pension and Other Postretirement Benefit Plans**

Mirant has various defined benefit and defined contribution pension plans, and other postretirement benefit plans. For a further discussion of these plans see Note 6, *Employee Benefit Plans* in the Company's 2009 Annual Report on Form 10-K.

**Net Periodic Benefit Cost (Credit)**

The components of the net periodic benefit cost (credit) are shown below (in millions):

	<b>Pension Plans</b>		<b>Other Postretirement Benefit Plans</b>	
	<b>Three Months Ended March 31,</b>		<b>Three Months Ended March 31,</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
Service cost	\$ 2	\$ 2	\$	\$ 1
Interest cost	4	4	1	1
Expected return of plan assets	(5)	(6)		
Net amortization <sup>1</sup>		1	(2)	(2)
<b>Net periodic benefit cost (credit)</b>	<b>\$ 1</b>	<b>\$ 1</b>	<b>\$ (1)</b>	<b>\$</b>

<sup>1</sup> Net amortization amount includes prior service costs and actuarial gains or losses.

**F. Stock-based Compensation**

On March 11, 2010, the Company granted stock options and issued restricted stock units to executives and certain other employees under the Mirant Corporation 2005 Omnibus Incentive Compensation Plan. The stock options have a ten-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 \$13.19, the Company's closing stock price on the day of the grant, and a grant date fair value of \$5.64. The restricted stock units have a grant date fair value of \$13.19, the Company's closing stock price on the day of the grant.

During both the three months ended March 31, 2010 and 2009, the Company recognized approximately \$4 million of compensation expense related to stock options and restricted stock units. These amounts are included in operations and maintenance expense in the unaudited condensed consolidated statements of operations.

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Stock-based compensation activity for the three months ended March 31, 2010, is as follows:

*Stock Options Service-based*

	Number of Options	Weighted Average Exercise Price	Aggregate Intrinsic Value (in thousands)
Outstanding at January 1, 2010	4,040,576	\$ 24.05	\$ 5,818
Granted	951,224	\$ 13.19	
Exercised or converted	(40,416)	\$ 10.40	
Forfeited	(10,279)	\$ 15.39	
Expired	(3,298)	\$ 31.28	
Outstanding at March 31, 2010	4,937,807	\$ 22.08	\$ 529
Exercisable or convertible at March 31, 2010	3,071,584	\$ 26.75	\$ 192
Cash proceeds from exercise of options for the three months ended March 31, 2010		\$ 420,326	

*Restricted Stock Units Service-based*

	Number of Units/ Shares	Weighted Average Grant Date Fair Value
Outstanding at January 1, 2010	1,587,324	\$ 14.95
Granted	990,200	\$ 13.19
Vested	(595,693)	\$ 18.07
Forfeited	(8,582)	\$ 13.21
Outstanding at March 31, 2010	1,973,249	\$ 13.13

**Change of Control**

If consummated, the proposed merger with RRI Energy will constitute a change of control as defined under the Mirant Corporation 2005 Omnibus Incentive Compensation Plan. As a result, all outstanding stock options and restricted stock units will become fully vested. The outstanding stock options will be converted into options to purchase RRI Energy common stock and restricted stock units will be converted into shares of RRI Energy based on the Exchange Ratio and the terms of the Merger Agreement. Upon the closing of the merger, RRI Energy will be renamed GenOn Energy. In addition, any unrecognized compensation expense associated with previously unvested stock options and restricted stock units will be immediately recognized as compensation expense. As of March 31, 2010, there was approximately \$36 million of total unrecognized compensation cost, excluding estimated forfeitures, related to non-vested stock-based awards.

**G. Earnings Per Share**

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



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The following table shows the computation of basic and diluted EPS for the three months ended March 31, 2010 and 2009 (in millions except per share data):

	<b>Three Months Ended March 31,</b>	
	<b>2010</b>	<b>2009</b>
Net income	\$ 407	\$ 380
<b>Basic and diluted:</b>		
Weighted average shares outstanding basic	145	145
Shares from assumed vesting of restricted stock units	1	
Weighted average shares outstanding diluted	146	145
<b>Basic and Diluted EPS</b>		
Basic EPS	\$ 2.81	\$ 2.62
Diluted EPS	\$ 2.79	\$ 2.62

For the three months ended March 31, 2010 and 2009, the weighted average number of securities that could potentially dilute basic EPS in the future that were not included in the computation of diluted EPS because to do so would have been antidilutive were as follows:

	<b>Three Months Ended March 31,</b>	
	<b>2010</b>	<b>2009</b>
	<b>(shares in millions)</b>	
Series A Warrants	27	27
Series B Warrants	7	7
Restricted stock units		1
Stock options	4	4
Total number of antidilutive shares	38	39

***Change of Control Series A Warrants and Series B Warrants***

If the proposed merger with RRI Energy is consummated, the holders of the Series A Warrants and Series B Warrants will have the right to acquire and receive, upon the exercise of such warrants, the number of shares of RRI Energy common stock that would have been issued or paid to the holders of the Series A Warrants and Series B Warrants if such holders were to have exercised the Series A Warrants and Series B Warrants immediately prior to the closing of the merger. Upon the closing of the merger, RRI Energy will be renamed GenOn Energy. The obligations in respect of the outstanding Series A Warrants and Series B Warrants, which expire on January 3, 2011, will be assumed by GenOn Energy upon consummation of the proposed merger.

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**Table of Contents****H. Stockholders' Equity*****Stockholder Rights Plan***

On March 26, 2009, Mirant announced the adoption of a stockholder rights plan (the "Stockholder Rights Plan") to help protect the Company's use of its federal NOLs from certain restrictions contained in §382 of the Internal Revenue Code of 1986, as amended. In general, an ownership change would occur if certain shifts in ownership of the Company's stock exceed 50 percentage points measured over a specified period of time. Given §382's broad definition, an ownership change could be the unintended consequence of otherwise normal market trading in the Company's stock that is outside the Company's control. The Stockholder Rights Plan was adopted to reduce the likelihood of such an unintended ownership change occurring. However, there can be no assurance that the Stockholder Rights Plan will prevent such an ownership change.

Under the Stockholder Rights Plan, when a person or group has obtained beneficial ownership of 4.9% or more of the Company's common stock, or an existing holder with greater than 4.9% ownership acquires more shares representing at least an additional 0.2% of the Company's common stock, there would be a triggering event causing potential significant dilution in the economic interest and voting power of such person or group. Such triggering event would also occur if an existing holder with greater than 4.9% ownership but less than 5.0% ownership acquires more shares that would result in such stockholder obtaining beneficial ownership of 5.0% or more of the Company's common stock. The Board of Directors has the discretion to exempt an acquisition of common stock from the provisions of the Stockholder Rights Plan if it determines the acquisition will not jeopardize tax benefits or is otherwise in the Company's best interests.

On February 26, 2010, Mirant announced that the Board of Directors had extended the Stockholder Rights Plan and that the Company would submit the Stockholder Rights Plan to a stockholder vote at its 2010 Annual Meeting of Stockholders on May 6, 2010. On April 28, 2010, the Company entered into a further amendment to the Stockholders Rights Plan (the "Second Amendment") with Mellon Investor Services LLC, as Rights Agent (the "Rights Agent"). The Second Amendment reduces the maximum term of the Stockholders Rights Plan from ten years to three years. Under the terms of the Stockholder Rights Plan (prior to the Second Amendment), the rights (as defined in the Stockholder Rights Plan) would have expired on the earliest of (i) February 25, 2020 (the "Fixed Date"), (ii) the time at which the rights are redeemed, (iii) the time at which the rights are exchanged, (iv) the repeal of §382 or any successor statute, or any other change, if the Board of Directors determines that the Stockholder Rights Plan is no longer necessary for the preservation of tax benefits, (v) the beginning of a taxable year of the Company for which the Board of Directors determines that no tax benefits may be carried forward and no built-in losses may be recognized, (vi) February 25, 2011 if stockholder approval has not been obtained, or (vii) a determination by the Board of Directors, prior to the time any person or group becomes an Acquiring Person (as defined in the Stockholder Rights Plan), that the Stockholder Rights Plan and the rights are no longer in the best interests of the Company and its stockholders. The Second Amendment amends the Fixed Date to February 25, 2013.

Provided neither has experienced an ownership change between December 31, 2009, and the closing date of the merger, each of Mirant and RRI Energy is expected separately to experience an ownership change, as defined in §382 of the Internal Revenue Code of 1986, on the merger date as a consequence of the merger. See Note A for further information on the proposed merger and the effect on the NOLs.

**Table of Contents****I. Segment Reporting**

The Company has four operating segments: Mid-Atlantic, Northeast, California and Other Operations. The Mid-Atlantic segment consists of four generating facilities located in Maryland and Virginia with total net generating capacity of 5,194 MW. The Northeast segment consists of three generating facilities located in Massachusetts and one generating facility located in New York with total net generating capacity of 2,535 MW. The California segment consists of three generating facilities located in or near the City of San Francisco, with total net generating capacity of 2,347 MW. The California segment also includes business development efforts for new generation, including Mirant Marsh Landing. Other Operations includes proprietary trading and fuel oil management activities, unallocated corporate overhead, interest expense on debt at Mirant Americas Generation and Mirant North America and interest income on the Company's invested cash balances. In the following tables, eliminations are primarily related to intercompany sales of emissions allowances and interest on intercompany notes receivable and notes payable.

**Operating Segments**

	Mid-Atlantic	Northeast	California	Other Operations (in millions)	Eliminations	Total
<b>Three Months Ended</b>						
<b>March 31, 2010:</b>						
Operating revenues <sup>1</sup>	\$ 739	\$ 72	\$ 38	\$ 31	\$	\$ 880
Cost of fuel, electricity and other products <sup>2</sup>	155	44	8			207
Gross margin	584	28	30	31		673
<b>Operating Expenses:</b>						
Operations and maintenance	113	24	20	9		166
Depreciation and amortization	33	6	8	4		51
Gain on sales of assets, net	(2)					(2)
Total operating expenses, net	144	30	28	13		215
Operating income (loss)	440	(2)	2	18		458
Total other expense, net	1			50		51
Net income (loss)	\$ 439	\$ (2)	\$ 2	\$ (32)	\$	\$ 407
Total assets at March 31, 2010	\$ 6,445	\$ 650	\$ 130	\$ 7,415	\$ (3,022)	\$ 11,618

<sup>1</sup> Includes unrealized gains of \$338 million, \$15 million and \$10 million for Mid-Atlantic, Northeast and Other Operations, respectively.

<sup>2</sup> Includes unrealized losses of \$19 million for Northeast and unrealized gains of \$8 million for Mid-Atlantic.

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	Mid-Atlantic	Northeast	California	Other Operations	Eliminations	Total
	(in millions)					
<b>Three Months Ended March 31, 2009:</b>						
Operating revenues <sup>1</sup>	\$ 672	\$ 152	\$ 35	\$ 22	\$ (3)	\$ 878
Cost of fuel, electricity and other products <sup>2</sup>	165	88	8	10		271
Gross margin	507	64	27	12	(3)	607
<b>Operating Expenses:</b>						
Operations and maintenance	105	32	19	6		162
Depreciation and amortization	24	4	5	3		36
Gain on sales of assets, net	(8)	(2)	(1)		(4)	(15)
Total operating expenses, net	121	34	23	9	(4)	183
Operating income	386	30	4	3	1	424
Total other expense, net	1		1	34		36
Income (loss) before income taxes	385	30	3	(31)	1	388
Provision for income taxes				8		8
Net income (loss)	\$ 385	\$ 30	\$ 3	\$ (39)	\$ 1	\$ 380
Total assets at December 31, 2009	\$ 5,807	\$ 616	\$ 144	\$ 5,239	\$ (2,278)	\$ 9,528

<sup>1</sup> Includes unrealized gains of \$242 million and \$28 million for Mid-Atlantic and Northeast, respectively, and unrealized losses of \$15 million for Other Operations.

<sup>2</sup> Includes unrealized losses of \$2 million for Northeast and unrealized gains of \$1 million for Mid-Atlantic.



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**Table of Contents****J. Litigation and Other Contingencies**

The Company is involved in a number of significant legal proceedings. In certain cases, plaintiffs seek to recover large and sometimes unspecified damages, and some matters may be unresolved for several years. The Company cannot currently determine the outcome of the proceedings described below or the ultimate amount of potential losses and therefore has not made any provision for such matters unless specifically noted below. Pursuant to guidance related to accounting for contingencies, management provides for estimated losses to the extent information becomes available indicating that losses are probable and that the amounts are reasonably estimable. Additional losses could have a material adverse effect on the Company's results of operations, financial position or cash flows.

***Shareholder Litigation***

Mirant and its directors have been named as defendants in four putative shareholder class actions filed in the Superior Court of Fulton County, Georgia, in connection with the merger of Mirant and RRI Energy: *Rosenbloom v. Cason, et al.*, No. 2010CV184223, filed April 13, 2010; *The Vladimir Gusinsky Living Trust v. Muller, et al.*, No. 2010CV184331, filed April 15, 2010; *Ng v. Muller, et al.*, No. 2010CV184449, filed April 16, 2010; and *Bayne v. Muller, et al.*, No. 2010CV184648, filed April 21, 2010. The complaints seek to enjoin the merger, alleging that Mirant's directors breached their fiduciary duties by failing to maximize the value to be received by Mirant shareholders, by agreeing to certain deal protection measures, and by improperly considering certain directors' personal interests in the transaction, such as future employment by the post-merger entity, in determining whether to enter into the Merger Agreement. Three of the complaints assert a claim of aiding and abetting breach of fiduciary duty against Mirant and RRI Energy; the fourth, Bayne, asserts this claim against RRI Energy alone. In addition to an order enjoining the transaction, the complaints variously seek, among other things: additional disclosures regarding the proposed transaction; an accounting to plaintiffs or imposition of a constructive trust in favor of plaintiffs for all damages allegedly caused by defendants and for all profits and any special benefits obtained as a result of defendants' purported breaches of fiduciary duties; rescission of the transaction, if consummated, or an award to plaintiff of recessionary damages; and attorneys' fees and expenses. Mirant and its directors view the complaints to be without merit and intend to defend against them vigorously.

***Scrubber Contract Issues***

Mirant Mid-Atlantic is working through various issues with Stone & Webster, Inc. (Stone & Webster), the EPC contractor for the scrubber projects at the Chalk Point, Dickerson and Morgantown generating facilities to determine the final amount owed to Stone & Webster. Stone & Webster is estimating that the cost incurred under the EPC contract at completion will exceed the amount currently budgeted. If the costs actually incurred for the EPC work were to equal the amount projected by Stone & Webster, the costs incurred by Mirant Mid-Atlantic and Mirant Chalk Point for environmental controls to meet the Maryland Healthy Air Act would exceed the \$1.674 billion currently budgeted for the total project by approximately 4%. Mirant Mid-Atlantic is questioning various costs incurred by Stone & Webster and is auditing various components of the costs incurred by Stone & Webster. Mirant Mid-Atlantic also has submitted owner change orders to Stone & Webster that would reduce the costs incurred under the EPC contract by removing work included in the contract specifications that ultimately was not performed or that was completed by Mirant Mid-Atlantic. Mirant Mid-Atlantic expects the final contract amount to be less than the amount projected by Stone & Webster, but cannot predict how much of a reduction will be achieved. The current budget of \$1.674 billion continues to represent management's best estimate of the Company's total capital expenditures for compliance with the Maryland Healthy Air Act.

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**Table of Contents*****Environmental Matters***

***Brandywine Fly Ash Facility.*** By letter dated November 19, 2009, the Defenders of Wildlife, Sierra Club, Patuxent Riverkeeper and Chesapeake Climate Action Network (the Brandywine Noticing Parties ) notified Mirant, Mirant Mid-Atlantic and Mirant MD Ash Management, LLC of their intent to file suit for violations of the Clean Water Act and Maryland's Water Pollution Control Law alleged to have occurred at the Brandywine Fly Ash Facility owned by Mirant MD Ash Management in Prince George's County, Maryland. They contend that the operation of the Brandywine facility has resulted in unpermitted discharges of certain pollutants, including aluminum, arsenic, cadmium, copper, lead, mercury, selenium and zinc, through three outfalls and through seepage to the ground water from the disposal cells at the facility. They also assert that the discharges cause violations of certain of Maryland's water quality criteria. Finally, the Brandywine Noticing Parties contend that Mirant MD Ash Management failed to perform certain monitoring and sampling or to file certain reports required under its existing National Pollutant Discharge Elimination System ( NPDES ) permit for the Brandywine Fly Ash Facility. The notice states that the Brandywine Noticing Parties will request the court to enjoin further violations, to impose civil penalties under the Clean Water Act of up to \$37,500 per day per violation for the period after January 4, 2006, and to award them attorney's fees. By letter dated January 15, 2010, the MDE advised Mirant Mid-Atlantic and Mirant MD Ash Management of its intent to file suit for violations of the Clean Water Act and Maryland's Water Pollution Control Law based upon factual allegations similar to those asserted by the Brandywine Noticing Parties. Mirant disputes the allegations of violations of the Clean Water Act and Maryland's Water Pollution Control Law made by the Brandywine Noticing Parties in the November 19, 2009, letter and by MDE in its letter of January 15, 2010. On April 2, 2010, the MDE filed a complaint against Mirant Mid-Atlantic and Mirant MD Ash Management in the United States District Court for the District of Maryland asserting violations of the Clean Water Act and Maryland's Water Pollution Control Law on the grounds alleged in the November 19, 2009, letter from the Brandywine Noticing Parties and the MDE's letter of January 15, 2010.

***EPA Information Request.*** In January 2001, the EPA issued a request for information to Mirant concerning the implications under the EPA's NSR regulations promulgated under the Clean Air Act of past repair and maintenance activities at the Potomac River generating facility in Virginia and the Chalk Point, Dickerson and Morgantown generating facilities in Maryland. The requested information concerned the period of operations that predates the ownership and lease of those facilities by Mirant Potomac River, Mirant Chalk Point and Mirant Mid-Atlantic. Mirant responded fully to this request. Under the APSA, Pepco is responsible for fines and penalties arising from any violation of the NSR regulations associated with operations prior to the acquisition or lease of the facilities by Mirant Potomac River, Mirant Chalk Point and Mirant Mid-Atlantic. If a violation is determined to have occurred at any of the facilities, Mirant Potomac River, Mirant Chalk Point and Mirant Mid-Atlantic, as the owner or lessee of the facility, may be responsible for the cost of purchasing and installing emissions control equipment, the cost of which may be material. Mirant Chalk Point and Mirant Mid-Atlantic have installed a variety of emissions control equipment on the Chalk Point, Dickerson and Morgantown generating facilities in Maryland to comply with the Maryland Healthy Air Act, but that equipment may not include all of the emissions control equipment that could be required if a violation of the EPA's NSR regulations is determined to have occurred at one or more of those facilities. If such a violation is determined to have occurred after the acquisition or lease of the facilities by Mirant Potomac River, Mirant Chalk Point and Mirant Mid-Atlantic or, if occurring prior to the acquisition or lease, is determined to constitute a continuing violation, Mirant Potomac River, Mirant Chalk Point or Mirant Mid-Atlantic could also be subject to fines and penalties by the state or federal government for the period after its acquisition or lease of the facility at issue, the cost of which may be material, although applicable bankruptcy law may bar such liability for periods prior to

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January 3, 2006, when the Plan became effective for Mirant Potomac River, Mirant Chalk Point and Mirant Mid-Atlantic.

*Faulkner Fly Ash Facility.* By letter dated April 2, 2008, the Environmental Integrity Project and the Potomac Riverkeeper notified Mirant and various of its subsidiaries that they and certain individuals intended to file suit alleging that violations of the Clean Water Act were occurring at the Faulkner Fly Ash Facility owned by Mirant MD Ash Management. The April 2, 2008, letter alleged that the Faulkner facility discharged certain pollutants at levels that exceed Maryland's water quality criteria, that it discharged certain pollutants without obtaining an appropriate NPDES permit, and that Mirant MD Ash Management failed to perform monthly monitoring required under an applicable NPDES permit. The letter indicated that the organizations intended to file suit to enjoin the violations alleged, to obtain civil penalties for past violations occurring after January 3, 2006, and to recover attorneys' fees. Mirant disputes the allegations of violations of the Clean Water Act made by the two organizations in the April 2, 2008, letter.

In May 2008, the MDE filed a complaint in the Circuit Court for Charles County, Maryland, against Mirant MD Ash Management and Mirant Mid-Atlantic. The complaint alleges violations of Maryland's water pollution laws similar to those asserted in the April 2, 2008, letter from the Environmental Integrity Project and the Potomac Riverkeeper. The MDE complaint requests that the court (1) prohibit continuation of the alleged unpermitted discharges, (2) require Mirant MD Ash Management and Mirant Mid-Atlantic to cease from disposing of any further coal combustion byproducts at the Faulkner Fly Ash Facility and close and cap the existing disposal cells within one year and (3) assess civil penalties of up to \$10,000 per day for each violation. The discharges that are the subject of the MDE's complaint result from a leachate treatment system installed by Mirant MD Ash Management in accordance with a December 18, 2000 Complaint and Consent Order (the December 2000 Consent Order) entered by the Maryland Secretary of the Environment, Water Management Administration pursuant to an agreement between the MDE and Pepco, the previous owner of the Faulkner Fly Ash Facility. Mirant MD Ash Management and Mirant Mid-Atlantic on July 23, 2008, filed a motion seeking dismissal of the MDE complaint, arguing that the discharges are permitted by the December 2000 Consent Order. In September 2009, the court denied a motion by Environmental Integrity Project seeking to intervene as a party to the suit, and the Environmental Integrity Project has appealed that ruling.

*Suit Regarding Chalk Point Emissions.* On June 25, 2009, the Chesapeake Climate Action Network and four individuals filed a complaint against Mirant Mid-Atlantic and Mirant Chalk Point in the United States District Court for the District of Maryland. The plaintiffs allege that Mirant Chalk Point has violated the Clean Air Act and Maryland environmental regulations by failing to install controls to limit emissions of particulate matter on unit 3 and unit 4 of the Chalk Point generating facility, which at times burn residual fuel oil. The plaintiffs seek to enjoin the alleged violations, to obtain civil penalties of up to \$32,500 per day for past noncompliance and to recover attorneys' fees. Mirant Mid-Atlantic and Mirant Chalk Point dispute the plaintiffs' allegations of violations of the Clean Air Act and Maryland environmental regulations. On October 13, 2009, Mirant Mid-Atlantic and Mirant Chalk Point filed a motion seeking dismissal of the complaint on the grounds that it was barred (1) under principles of res judicata by the dismissal with prejudice in January 2007 of similar claims filed by environmental advocacy organizations asserting that emissions from Chalk Point units 3 and 4 violated the Clean Air Act and (2) by actions taken by the MDE currently and over a number of years to ensure compliance by Chalk Point units 3 and 4 with regulations under the Clean Air Act and Maryland law limiting emissions of particulate matter.

*Mirant Mid-Atlantic and Mirant Chalk Point 2008 Consent Decree.* In March 2008, Mirant Mid-Atlantic, Mirant Chalk Point and the MDE entered into a consent decree that provided

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stipulated penalties for various future violations of Maryland regulations related to emissions from the Chalk Point, Dickerson and Morgantown generating facilities. That consent decree provided in part that if emissions from the stacks for Morgantown units 1 and 2, the common stack for Chalk Point units 1 and 2, or the common stack for Dickerson units 1, 2 and 3 failed to achieve compliance with certain opacity limits in the period July 1, 2009 through December 31, 2009, a stipulated penalty would apply of \$1,000 per day of violation. In February 2010, the MDE notified Mirant Mid-Atlantic that it was seeking payment of a stipulated penalty of \$134,000 for failures to comply with these opacity limits during the third quarter of 2009. Mirant Mid-Atlantic and Mirant Chalk Point expect that a stipulated penalty of a lesser amount will also be owed for the fourth quarter of 2009. In April 2010, the MDE notified Mirant Mid-Atlantic and Mirant Chalk Point that it was seeking payment of a stipulated penalty of \$91,000 for exceedances of the opacity limits in the fourth quarter of 2009.

*Mirant Mid-Atlantic NOV Regarding Reporting of Ozone Season NOx Emissions.* In March 2010, the MDE issued an NOV to Mirant Mid-Atlantic asserting that it had failed in 2009 to comply with state regulations requiring it to notify MDE when the Chalk Point, Dickerson and Morgantown generating facilities had exceeded 80% of the applicable limitation on ozone season NOx emissions. The NOV states that such a violation can result in a civil penalty of up to \$25,000 for each day of violation.

*Mirant Potomac River NOV Regarding Particulate Matter Continuous Emissions Monitoring System.* By letter dated April 6, 2010, the Virginia DEQ issued an NOV to Mirant Potomac River asserting that it had failed to include required particulate matter continuous emissions monitoring system ( PM CEMS ) data in compliance reports submitted for the second half and fourth quarter of 2009. The NOV alleges that when the PM CEMS data was subsequently provided, it indicated that particulate matter emissions may have occurred above the permitted emission limit. The NOV states that such violations can result in various civil penalties, including a civil penalty of up to \$32,500 for each day of violation.

*Mirant Mid-Atlantic, Mirant Chalk Point and Mirant Potomac River Amended NOx Consent Decree.* In 2006, Mirant Mid-Atlantic, Mirant Chalk Point, Mirant Potomac River, the MDE, the Virginia DEQ, the EPA and the United States Department of Justice ( DOJ ) signed a consent decree that was entered by the court in 2007 to address alleged NOx exceedances from Mirant Potomac River in 2003. Among other things, the consent decree provided more stringent NOx emission limits for the Morgantown units and various reporting requirements along with stipulated penalties for future violations. In April 2010, the DOJ notified Mirant Mid-Atlantic that it was seeking a stipulated penalty of \$168,000 based upon unit 2 of the Morgantown generating facility exceeding the 30-day rolling average emission rate limit specified by the consent decree on 16 days in November 2009, the failure to provide a written report of those exceedances within ten days and the late submission of NOx data for the fourth quarter of 2008.

*Montgomery County Carbon Emissions Levy.* Mirant Mid-Atlantic's Dickerson generating facility is located in Montgomery County, Maryland. In April 2010, the Montgomery County Council introduced a proposed law that, if adopted, will impose a levy on major emitters of CO2 in Montgomery County of \$5 per ton of CO2 emitted. The proposed law defines a major emitter of CO2 in Montgomery County to be a source emitting 1 million tons or more annually of CO2. The Dickerson generating facility would fall within the definition of a major emitter, and is currently the only facility in Montgomery County that would meet the criteria to be a major emitter. As currently drafted, the proposed law would go into effect upon passage by the council, which could occur as early as mid-May 2010. Mirant estimates that the proposed law, if adopted, would impose an additional \$10 million to \$15 million per year in levies owed to Montgomery County. Mirant Mid-Atlantic intends to challenge the legality of the proposed law, if it is adopted.

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*Riverkeeper Suit Against Mirant Lovett.* On March 11, 2005, Riverkeeper, Inc. filed suit against Mirant Lovett in the United States District Court for the Southern District of New York under the Clean Water Act. The suit alleges that Mirant Lovett failed to implement a marine life exclusion system at its former Lovett generating facility and to perform monitoring for the exclusion of certain aquatic organisms from the facility's cooling water intake structures in violation of Mirant Lovett's water discharge permit issued by the State of New York. The plaintiff requested the court to impose civil penalties of \$32,500 per day of violation and to award the plaintiff attorneys' fees. Mirant Lovett's view is that it complied with the terms of its water discharge permit, as amended by a Consent Order entered June 29, 2004. Mirant Lovett filed a motion seeking dismissal of the suit on the grounds that it complied with the terms of its water discharge permit, the closure of the Lovett generating facility in April 2008 moots the plaintiff's request for injunctive relief, and the discharge in bankruptcy received by Mirant Lovett in 2007 bars any claim for penalties. On December 15, 2009, the district court granted in part and denied in part Mirant Lovett's motion to dismiss. The court dismissed the plaintiff's claims for injunctive relief and for penalties for any period prior to Mirant Lovett's emergence from bankruptcy on October 2, 2007. It allowed to go forward claims alleging that Mirant Lovett violated its water discharge permit by not implementing the marine life exclusion system between the later of February 23, 2008 or when ice conditions on the Hudson River allowed for the system's safe deployment and April 19, 2008, when the Lovett generating facility ceased operation, concluding that the June 29, 2004 Consent Order did not have the effect of modifying the water discharge permit.

*Notices of Intent to Sue for Alleged Violations of the Endangered Species Act.* By letter dated September 27, 2007, the Coalition for a Sustainable Delta, four water districts, and an individual (the "Delta Noticing Parties") provided notice to Mirant and Mirant Delta of their intent to file suit alleging that Mirant Delta has violated, and continues to violate, the federal Endangered Species Act through the operation of its Contra Costa and Pittsburg generating facilities. The Delta Noticing Parties contend that the facilities' use of water drawn from the Sacramento-San Joaquin Delta for cooling purposes results in harm to four species of fish listed as endangered species. The Delta Noticing Parties assert that Mirant Delta's authorizations to take (i.e., cause harm to) those species, a biological opinion and incidental take statement issued by the National Marine Fisheries Service on October 17, 2002, for three of the fish species and a biological opinion and incidental take statement issued by the United States Fish and Wildlife Service on November 4, 2002, for the fourth fish species, have been violated by Mirant Delta and no longer apply to permit the effects on the four fish species caused by the operation of the Contra Costa and Pittsburg generating facilities. Following receipt of these letters, in late October 2007, Mirant Delta received correspondence from the United States Fish and Wildlife Service, the National Marine Fisheries Service and the United States Army Corps of Engineers (the "Corps") clarifying that Mirant Delta continued to be authorized to take the four species of fish protected under the federal Endangered Species Act. The agencies have initiated a process that will review the environmental effects of Mirant Delta's water usage, including effects on the protected species of fish. That process could lead to changes in the manner in which Mirant Delta can use river water for the operation of the Contra Costa and Pittsburg generating facilities. In a subsequent letter, the Coalition for a Sustainable Delta also alleged violations of the National Environmental Policy Act and the California Endangered Species Act associated with the operation of Mirant Delta's generating facilities. On May 14, 2009, the Coalition for a Sustainable Delta, Kern County Water Agency and an individual sent a new notice of intent to sue to the Corps alleging that the Corps had violated the federal Endangered Species Act by issuing permits related to the operation of Mirant Delta's Contra Costa and Pittsburg generating facilities without ensuring that conservation measures would be implemented to minimize and mitigate the harm to the four endangered fish species and their habitat allegedly resulting from such operation. Mirant Delta

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disputes the allegations made by the Delta Noticing Parties and those made in the May 14, 2009 notice.

On February 11, 2010, Mirant Delta entered into a settlement agreement with the Delta Noticing Parties, the parties to the May 14, 2009 notice of intent to sue, and the Corps. The settlement agreement provides for the Delta Noticing Parties and the parties to the May 14, 2009 notice of intent to sue to withdraw the two notices of intent to sue and to release all claims described in those notices. The settlement agreement obligated Mirant Delta to seek approval from the Corps, the United States Fish and Wildlife Service, and the National Marine Fisheries Service to amend its plan currently in effect for monitoring entrainment and impingement of aquatic species caused by the operation of its generating facilities to increase monitoring during periods the facilities are operating, and those approvals have been obtained. The settlement agreement requires the Corps to use its best efforts to conclude ongoing consultations with the United States Fish and Wildlife Service and the National Marine Fisheries Service regarding the environmental effects of Mirant Delta's water usage in a timely manner and allows the Delta Noticing Parties and the parties to the May 14, 2009 notice of intent to sue to issue new notices of intent to sue if such consultations are not completed by October 31, 2011.

### ***Chapter 11 Proceedings***

On July 14, 2003, and various dates thereafter, Mirant Corporation and certain of its subsidiaries (collectively, the "Mirant Debtors") filed voluntary petitions for relief under Chapter 11 of the Bankruptcy Code in the Bankruptcy Court. Mirant and most of the Mirant Debtors emerged from bankruptcy on January 3, 2006, when the Plan became effective. The remaining Mirant Debtors (Mirant New York, Mirant Bowline, Mirant Lovett, Mirant NY-Gen and Hudson Valley Gas) emerged from bankruptcy on various dates in 2007. As of March 31, 2010, approximately 837,000 of the shares of Mirant common stock to be distributed under the Plan had not yet been distributed and have been reserved for distribution with respect to claims disputed by the Mirant Debtors that have not been resolved. Under the terms of the Plan, upon the resolution of such a disputed claim, the claimant will receive the same pro rata distributions of Mirant common stock, cash, or both common stock and cash as previously allowed claims, regardless of the price at which Mirant common stock is trading at the time the claim is resolved.

To the extent the aggregate amount of the payouts determined to be due with respect to disputed claims ultimately exceeds the amount of the funded claim reserve, Mirant would have to issue additional shares of common stock to address the shortfall, which would dilute existing Mirant stockholders, and Mirant and Mirant Americas Generation would have to pay additional cash amounts as necessary under the terms of the Plan to satisfy such pre-petition claims. If Mirant is required to issue additional shares of common stock to satisfy unresolved claims, certain parties who received approximately 21 million of the 300 million shares of common stock distributed under the Plan are entitled to receive additional shares of common stock to avoid dilution of their distributions under the Plan.

### ***Actions Pursued by MC Asset Recovery***

Under the Plan, the rights to certain actions filed by Mirant and various of its subsidiaries against third parties were transferred to MC Asset Recovery. MC Asset Recovery, although wholly-owned by Mirant, is governed by managers who are independent of Mirant and its other subsidiaries. Under the Plan, any cash recoveries obtained by MC Asset Recovery from the actions transferred to it, net of fees and costs incurred in prosecuting the actions, are to be paid to the unsecured creditors of Mirant Corporation in the Chapter 11 proceedings and the holders of the equity interests in Mirant immediately prior to the effective date of the Plan except where such a recovery results in an allowed claim in the bankruptcy proceedings, as described below. MC Asset

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Recovery is a disregarded entity for income tax purposes, and Mirant is responsible for income taxes related to its operations. The Plan provides that Mirant may not reduce payments to be made to unsecured creditors and former holders of equity interests from recoveries obtained by MC Asset Recovery for the taxes owed by Mirant, if any, on any net recoveries up to \$175 million. If the aggregate recoveries exceed \$175 million net of costs, then under the Plan Mirant may reduce the payments to be made to such unsecured creditors and former holders of equity interests by the amount of any taxes it will owe or NOLs utilized with respect to taxable income resulting from the amount in excess of \$175 million.

The Plan and MC Asset Recovery's Limited Liability Company Agreement also obligated Mirant to make contributions to MC Asset Recovery as necessary to pay professional fees and certain other costs reasonably incurred by MC Asset Recovery, including expert witness fees and other costs of the actions transferred to MC Asset Recovery. In June 2008, Mirant and MC Asset Recovery, with the approval of the Bankruptcy Court, agreed to limit the total amount of funding to be provided by Mirant to MC Asset Recovery to \$67.8 million, and the amount of such funding obligation not already incurred by Mirant at that time was fully accrued. Mirant was entitled to be repaid the amounts it funded from any recoveries obtained by MC Asset Recovery before any distribution was made from such recoveries to the unsecured creditors of Mirant Corporation and the former holders of equity interests.

On March 31, 2009, The Southern Company (Southern Company) and MC Asset Recovery entered into a settlement agreement (the MCAR Settlement) resolving claims asserted by MC Asset Recovery in MC Asset Recovery, LLC v. Southern Company, a suit that was pending in the Northern District of Georgia (the Southern Company Litigation). Southern Company filed a Form 8-K dated April 2, 2009, that described the settlement and the claims that it resolved. Southern Company and MC Asset Recovery finalized certain terms of the settlement on June 8, 2009. Pursuant to the settlement, Southern Company paid \$202 million to MC Asset Recovery in settlement of all claims asserted in the Southern Company Litigation. MC Asset Recovery used a portion of that payment to pay fees owed to the managers of MC Asset Recovery and other expenses of MC Asset Recovery not previously funded by Mirant, and it retained \$47 million from that payment to fund future expenses and to apply against unpaid expenditures. MC Asset Recovery distributed the remaining \$155 million to Mirant. In accordance with the Plan, Mirant retained approximately \$52 million of that distribution as reimbursement for the funds it had provided to MC Asset Recovery and costs it incurred related to MC Asset Recovery that had not been previously reimbursed. The Company recognized the \$52 million as a reduction of operations and maintenance expense for the year ended December 31, 2009. Pursuant to MC Asset Recovery's Limited Liability Company Agreement and an order of the Bankruptcy Court dated October 31, 2006, Mirant distributed approximately \$1.7 million to the managers of MC Asset Recovery. In September 2009, the remaining approximately \$101 million of the amount recovered by MC Asset Recovery was distributed pursuant to the terms of the Plan. Following these distributions, Mirant has no further obligation to provide funding to MC Asset Recovery. As a result, Mirant reversed its remaining accrual of \$10 million of funding obligations as a reduction in operations and maintenance expense for the year ended December 31, 2009. The Company does not expect to owe any taxes related to the MC Asset Recovery settlement with Southern Company. MC Asset Recovery had \$38 million and \$39 million of assets included in funds on deposit and liabilities included in accounts payable and accrued liabilities in its unconsolidated balance sheets at March 31, 2010 and December 31, 2009, respectively.

One of the two remaining actions transferred to MC Asset Recovery seeks to recover damages for fraudulent transfers that occurred prior to the filing of Mirant's bankruptcy proceedings. That action alleges that the defendants engaged in transactions with Mirant at a time when it was insolvent or was rendered insolvent by the resulting transfers and that it did not receive fair value for those transfers. If MC Asset Recovery succeeds in obtaining any recoveries on these avoidance

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claims transferred to it, the party or parties from which such recoveries are obtained could seek to file claims in Mirant's bankruptcy proceedings. Mirant would vigorously contest the allowance of any such claims on the ground that, among other things, the recovery of such amounts does not reinstate any enforceable pre-petition obligation that could give rise to a claim. If such a claim were to be allowed by the Bankruptcy Court as a result of a recovery by MC Asset Recovery, then the party receiving the claim would be entitled to either Mirant common stock or such stock and cash as provided under the Plan. Under such circumstances, the order entered by the Bankruptcy Court on December 9, 2005, confirming the Plan provides that Mirant would retain from the net amount recovered an amount equal to the dollar amount of the resulting allowed claim rather than distribute such amount to the unsecured creditors and former equity holders as described above.

***California and Western Power Markets***

*FERC Refund Proceedings Arising Out of California Energy Crisis.* High prices experienced in California and western wholesale electricity markets in 2000 and 2001 caused various purchasers of electricity in those markets to initiate proceedings seeking refunds. Several of those proceedings remain pending either before the FERC or on appeal to the United States Court of Appeals for the Ninth Circuit (the "Ninth Circuit"). The proceedings that remain pending include proceedings (1) ordered by the FERC on July 25, 2001, (the "FERC Refund Proceedings") to determine the amount of any refunds and amounts owed for sales made by market participants, including Mirant Americas Energy Marketing, in the CAISO or the Cal PX markets from October 2, 2000, through June 20, 2001 (the "Refund Period"), (2) ordered by the FERC to determine whether there had been unjust and unreasonable charges for spot market bilateral sales in the Pacific Northwest from December 25, 2000, through June 20, 2001 (the "Pacific Northwest Proceeding"), and (3) arising from a complaint filed in 2002 by the California Attorney General that sought refunds for transactions conducted in markets administered by the CAISO and the Cal PX outside the Refund Period set by the FERC and for transactions between the DWR and various owners of generation and power marketers, including Mirant Americas Energy Marketing and subsidiaries of Mirant Americas Generation. Various parties appealed the FERC orders related to these proceedings to the Ninth Circuit seeking review of a number of issues, including changing the Refund Period to include periods prior to October 2, 2000, and expanding the sales of electricity subject to potential refund to include bilateral sales made to the DWR and other parties. Although various of these appeals remain pending, the Ninth Circuit ruled in orders issued on August 2, 2006, and September 9, 2004, that the FERC should consider further whether to grant relief for sales of electricity made in the CAISO and Cal PX markets prior to October 2, 2000, at rates found to be unjust, and, in the proceeding initiated by the California Attorney General, what remedies, including potential refunds, are appropriate where entities, including Mirant Americas Energy Marketing, purportedly did not comply with certain filing requirements for transactions conducted under market-based rate tariffs.

On January 14, 2005, Mirant and certain of its subsidiaries (the "Mirant Settling Parties") entered into a Settlement and Release of Claims Agreement (the "California Settlement") with PG&E, Southern California Edison Company, San Diego Gas and Electric Company, the CPUC, the DWR, the EOB and the Attorney General of the State of California (collectively, the "California Parties"). The California Settlement was approved by the FERC on April 13, 2005, and became effective on April 15, 2005, upon its approval by the Bankruptcy Court. The California Settlement resulted in the release of most of Mirant Americas Energy Marketing's potential liability (1) in the FERC Refund Proceedings for sales made in the CAISO or the Cal PX markets, (2) in the Pacific Northwest Proceeding, and (3) in any proceedings at the FERC resulting from the complaint filed in 2002 by the California Attorney General. Based on the California Settlement, on April 15, 2008, the FERC dismissed Mirant Americas Energy Marketing and the



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other subsidiaries of the Company from the proceeding initiated by the complaint filed in 2002 by the California Attorney General.

Under the California Settlement, the California Parties and those other market participants who have opted into the settlement have released the Mirant Settling Parties, including Mirant Americas Energy Marketing, from any liability for refunds related to sales of electricity and natural gas in the western markets from January 1, 1998, through July 14, 2003. Also, the California Parties have assumed the obligation of Mirant Americas Energy Marketing to pay any refunds determined by the FERC to be owed by Mirant Americas Energy Marketing to other parties that do not opt into the settlement for transactions in the CAISO and Cal PX markets during the Refund Period, with the liability of the California Parties for such refund obligation limited to the amount of certain receivables assigned by Mirant Americas Energy Marketing to the California Parties under the California Settlement. The settlement did not relieve Mirant Americas Energy Marketing of liability for any refunds that the FERC determines it to owe (1) to participants in the Cal PX and CAISO markets that did not opt into the settlement for periods outside the Refund Period and (2) to participants in bilateral transactions with Mirant Americas Energy Marketing that did not opt into the settlement.

Resolution of the refund proceedings that remain pending before the FERC or that currently are on appeal to the Ninth Circuit could ultimately result in the FERC concluding that the prices received by Mirant Americas Energy Marketing in some transactions occurring in 2000 and 2001 should be reduced. The Company's view is that the bulk of any obligations of Mirant Americas Energy Marketing to make refunds as a result of sales completed prior to July 14, 2003, in the CAISO or Cal PX markets or in bilateral transactions either have been addressed by the California Settlement or have been resolved as part of Mirant Americas Energy Marketing's bankruptcy proceedings. To the extent that Mirant Americas Energy Marketing's potential refund liability arises from contracts that were transferred to Mirant Energy Trading as part of the transfer of the trading and marketing business under the Plan, Mirant Energy Trading may have exposure to any refund liability related to transactions under those contracts.

***Complaint Challenging Capacity Rates Under the RPM Provisions of PJM's Tariff***

On May 30, 2008, a variety of parties, including the state public utility commissions of Maryland, Pennsylvania, New Jersey and Delaware, ratepayer advocates, certain electric cooperatives, various groups representing industrial electricity users, and federal agencies (the RPM Buyers), filed a complaint with the FERC asserting that capacity auctions held to determine capacity payments under the reliability pricing model (RPM) provisions of PJM's tariff had produced rates that were unjust and unreasonable. PJM conducted the capacity auctions that are the subject of the complaint to set the capacity payments in effect under the RPM provisions of its tariff for twelve month periods beginning June 1, 2008, June 1, 2009, and June 1, 2010. The RPM Buyers allege that (i) the times between when the auctions were held and the periods that the resulting capacity rates would be in effect were too short to allow competition from new resources in the auctions, (ii) the administrative process established under the RPM provisions of PJM's tariff was inadequate to restrain the exercise of market power by the withholding of capacity to increase prices, and (iii) the locational pricing established under the RPM provisions of PJM's tariff created opportunities for sellers to raise prices while serving no legitimate function. The RPM Buyers asked the FERC to reduce significantly the capacity rates established by the capacity auctions and to set June 1, 2008, as the date beginning on which any rates found by the FERC to be excessive would be subject to refund. If the FERC were to reduce the capacity payments set through the capacity auctions to the rates proposed by the RPM Buyers, the capacity revenue the Company has received or expects to receive for the period June 1, 2008 through May 31, 2011, would be reduced by approximately \$600 million. On September 19, 2008, the FERC issued an order dismissing the complaint. The FERC found that no

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party had violated the RPM provisions of PJM's tariff and that the prices determined during the auctions were in accordance with the tariff's provisions. The RPM Buyers filed a request for rehearing, which the FERC denied on June 18, 2009. Certain of the RPM Buyers have appealed the orders entered by the FERC to the United States Court of Appeals for the Fourth Circuit. That appeal has been transferred to the United States Court of Appeal for the District of Columbia Circuit.

***Other Legal Matters***

The Company is involved in various other claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the Company's results of operations, financial position or cash flows.

**K. Settlements and Other Charges**

***Potomac River Settlement***

In July 2008, the City of Alexandria, Virginia (in which the Potomac River generating facility is located) and Mirant Potomac River entered into an agreement containing certain terms that were included in a proposed comprehensive state operating permit for the Potomac River generating facility issued by the Virginia DEQ that month. Under that agreement, Mirant Potomac River committed to spend \$34 million over several years to reduce particulate emissions. The \$34 million was placed in escrow and included in funds on deposit and other noncurrent assets in the accompanying unaudited condensed consolidated balance sheets. At March 31, 2010, the balance in the escrow account was approximately \$33 million and is included in the Company's estimated capital expenditures. On July 30, 2008, the Virginia State Air Pollution Control Board approved the comprehensive permit with terms consistent with the agreement between Mirant Potomac and the City of Alexandria, and the Virginia DEQ issued the permit on July 31, 2008.

Prior to the issuance of the comprehensive state operating permit in July 2008, the Potomac River generating facility operated under a state operating permit issued June 1, 2007, that significantly restricted the facility's operations by imposing stringent limits on its SO<sub>2</sub> emissions and constraining unit operations so that no more than three of the facility's five units could operate at one time. In compliance with the comprehensive permit, in 2008 Mirant Potomac River merged the stacks for units 3, 4 and 5 into one stack at the Potomac River generating facility and, in January 2009, Mirant Potomac River merged the stacks for units 1 and 2 into one stack. With the completion of the stack mergers, the permit issued in July 2008 does not constrain operations of the Potomac River generating facility below historical operations and allows operation of all five units at one time. In January 2010, the Virginia DEQ informed Mirant Potomac River that in light of the decision of the Virginia Court of Appeals vacating Virginia's rules restricting trading in CAIR allowances, the Virginia DEQ has determined that issuing a state operating permit to limit NO<sub>x</sub> emissions during the Ozone Season is warranted.

***Mirant Potrero Settlement Agreement with City of San Francisco***

Mirant Potrero and the City and County of San Francisco, California entered into a Settlement Agreement (the "Potrero Settlement") dated August 13, 2009. The Potrero Settlement became effective in November 2009 upon its approval by the City's Board of Supervisors and Mayor. The Potrero Settlement addressed certain disputes that had arisen between the City of San Francisco and Mirant Potrero related to the Potrero generating facility. Among other things, the Potrero Settlement obligates Mirant Potrero to close permanently each of the remaining units of the Potrero generating facility at the end of the year in which the CAISO determines that such

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unit is no longer needed to maintain the reliable operation of the transmission system. The agreement also bars Mirant Potrero from building any additional generating facilities on the site of the Potrero generating facility. Mirant Potrero expects that the completion of the TransBay Cable project, which is an underwater electric transmission cable in the San Francisco Bay, will decrease the need for generating resources in the City of San Francisco. While the TransBay Cable project has encountered some delays in startup, it is expected to become operational in 2010. As a result, Mirant Potrero expects the CAISO to determine in 2010 that unit 3 of the Potrero generating facility is no longer needed for reliability purposes and that unit 3 will close by the end of 2010. By letter dated January 12, 2010, the CAISO advised the City of San Francisco that the expected replacement in 2010 of two underground transmission cables, if completed successfully, would allow the CAISO not to require the continued operation of the remaining units of the Potrero generating facility, units 4, 5 and 6, for reliability purposes after 2010. The CAISO will not determine which units of the Potrero generating facility are required to operate in 2011 for reliability purposes until the fall of 2010, but Mirant Potrero expects that none of the units of the Potrero generating facility will be required to operate for reliability purposes after 2010 and that all of the units will close by the end of 2010.

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***Item 2. Management's Discussion and Analysis of Results of Operations and Financial Condition***

The following discussion should be read in conjunction with our unaudited condensed consolidated financial statements and the notes thereto, which are included elsewhere in this report.

**Overview**

We are a competitive energy company that produces and sells electricity in the United States. We own or lease 10,076 MW of net electric generating capacity in the Mid-Atlantic and Northeast regions and in California. We also operate an integrated asset management and energy marketing organization based in Atlanta, Georgia.

***Proposed Merger with RRI Energy***

On April 11, 2010, we entered into the Merger Agreement with RRI Energy and RRI Energy Holdings, Inc. ( Merger Sub ), a direct and wholly-owned subsidiary of RRI Energy. Upon the terms and subject to the conditions set forth in the Merger Agreement, which has been unanimously approved by each of the boards of directors of Mirant and RRI Energy, Merger Sub will merge with and into Mirant, with Mirant continuing as the surviving corporation and a wholly-owned subsidiary of RRI Energy. The merger is intended to qualify as a tax-free reorganization under the Internal Revenue Code of 1986, as amended, so that none of RRI Energy, Merger Sub, Mirant or any of the Mirant stockholders generally will recognize any gain or loss in the transaction, except that Mirant stockholders will recognize gain with respect to cash received in lieu of fractional shares of RRI Energy common stock. Pursuant to the Merger Agreement, upon the closing of the merger, each issued and outstanding share of Mirant common stock, including grants of restricted common stock, will automatically be converted into shares of common stock of RRI Energy based on the Exchange Ratio. Additionally, upon the closing of the merger, RRI Energy will be renamed GenOn Energy. Mirant stock options and other equity awards will generally convert upon completion of the merger into stock options and equity awards with respect to RRI Energy common stock, after giving effect to the Exchange Ratio. As a result of the merger, Mirant stockholders will own approximately 54% of the equity of the combined company and RRI Energy stockholders will own approximately 46%.

Completion of the merger is subject to various customary conditions, including, among others, (i) approval by RRI Energy stockholders of the issuance of RRI Energy common stock in the merger, (ii) adoption of the Merger Agreement by Mirant stockholders, (iii) effectiveness of the registration statement for the RRI Energy common stock to be issued in the merger, (iv) approval of the listing on the NYSE of the RRI Energy common stock to be issued in the merger, (v) expiration or termination of the applicable Hart-Scott-Rodino Act waiting period, (vi) receipt of all required regulatory approvals and (vii) consummation by GenOn Energy of debt financings in an amount sufficient to fund the refinancing transactions contemplated by, and on terms consistent with, the Merger Agreement.

Among the refinancing transactions noted above, the completion of the merger is conditioned on GenOn Energy consummating certain debt financing transactions, including securing a new revolving credit facility. The new GenOn Energy debt financing and revolving credit facility will be used, in part, to redeem the Mirant North America senior notes and to repay and terminate the Mirant North America term loan and revolving credit facility. See Note C to our unaudited condensed consolidated financial statements contained elsewhere in this report and Liquidity and Capital Resources in this Item 2 for additional information on Mirant North America's debt.

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Both Mirant and RRI Energy are subject to restrictions on their ability to solicit alternative acquisition proposals, provide information and engage in discussions with third parties, except under limited circumstances to permit Mirant's and RRI Energy's boards of directors to comply with their fiduciary duties. The Merger Agreement contains certain termination rights for both Mirant and RRI Energy, and further provides that, upon termination of the Merger Agreement under specified circumstances, Mirant or RRI Energy may be required to pay the other a termination fee of either \$37.15 million or \$57.78 million. Further information concerning the proposed merger will be included in a joint proxy statement/prospectus contained in the registration statement on Form S-4 to be filed by RRI Energy with the SEC.

Provided neither has experienced an ownership change between December 31, 2009, and the closing date of the merger, each of Mirant and RRI Energy is expected separately to experience an ownership change, as defined in Section ( § ) 382 of the Internal Revenue Code of 1986, on the merger date as a consequence of the merger. Immediately following the merger, Mirant and RRI Energy will be members of the same consolidated federal income tax group. The ability of this consolidated tax group to deduct the pre-merger NOL carry forwards of Mirant and RRI Energy against the post-merger taxable income of the group will be substantially limited as a result of these ownership changes.

The merger is expected to be completed by the end of 2010. Prior to the completion of the merger, Mirant and RRI Energy will continue to operate as independent companies. Except for specific references to the proposed merger, the disclosures contained in this report on Form 10-Q relate solely to Mirant. See Part II, Item 1A, Risk Factors for additional information on the proposed merger with RRI Energy.

**Hedging Activities**

We hedge economically a substantial portion of our Mid-Atlantic coal-fired baseload generation and certain of our Mid-Atlantic and Northeast gas and oil-fired generation through OTC transactions. However, we generally do not hedge our intermediate and peaking units for tenors greater than 12 months. We hedge using products which we expect to be effective to mitigate the price risk of our generation. However, as a result of market liquidity limitations, our hedges often are not an exact match for the generation being hedged, and, we then have some risks resulting from price differentials for different delivery points and for implied differences in heat rates when we hedge power using natural gas. A significant portion of our hedges are financial swap transactions between Mirant Mid-Atlantic and financial counterparties that are senior unsecured obligations of such parties and do not require either party to post cash collateral either for initial margin or for securing exposure as a result of changes in power or natural gas prices. At April 13, 2010, our aggregate hedge levels based on expected generation for the remainder of 2010 and subsequent years were as follows:

	Aggregate Hedge Levels Based on Expected Generation				
	2010	2011	2012	2013	2014
Power	100%	66%	65%	39%	37%
Fuel	85%	71%	40%	10%	%

Legislation has been proposed in Congress to increase the regulation of transactions involving OTC derivative financial instruments. The various bills provide that standardized swap transactions between dealers and large market participants would have to be cleared and must be traded on an exchange or electronic platform. Although certain of the bills provide exclusions from the clearing and certain other requirements for market participants, such as Mirant, which utilize OTC derivative financial instruments to hedge commercial risks, such exclusions are the focus of debate and may not ultimately be part of any final legislation. Greater regulation of OTC

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derivative financial instruments could materially affect our ability to hedge economically our generation by reducing liquidity in the energy and commodity markets and, if we are required to clear such transactions on exchanges, by significantly increasing the collateral costs associated with such activities.

**Capital Expenditures and Capital Resources**

For the three months ended March 31, 2010, we invested \$85 million for capital expenditures, excluding capitalized interest, of which \$48 million related to compliance with the Maryland Healthy Air Act. As of March 31, 2010, we have invested approximately \$1.453 billion for capital expenditures related to compliance with the Maryland Healthy Air Act. As the final part of our compliance with the Maryland Healthy Air Act, we placed our scrubbers in service in the fourth quarter of 2009. Provisions in our construction contracts for the scrubbers provide that certain payments be made after final completion of the project. The current budget of \$1.674 billion continues to represent our best estimate of the total capital expenditures for compliance with the Maryland Healthy Air Act. See Note J to our unaudited condensed consolidated financial statements contained elsewhere in this report for further discussion of scrubber contract issues.

For the three months ended March 31, 2010, our capitalized interest was approximately \$2 million. The decrease in capitalized interest from prior periods is a result of placing our scrubbers in service in the fourth quarter of 2009.

The following table details the expected timing of payments for our estimated capital expenditures, excluding capitalized interest, for the remainder of 2010 and for 2011 (in millions):

	2010	2011
Maryland Healthy Air Act	\$ 221	\$
Other environmental	8	29
Maintenance	80	48
Marsh Landing generating station	47	185
Other construction	25	43
Other	14	11
<b>Total</b>	<b>\$ 395</b>	<b>\$ 316</b>

We expect that available cash and future cash flows from operations will be sufficient to fund these capital expenditures. However, we plan to fund a substantial portion of the capital expenditures for the Marsh Landing generating facility with project financing.

**Scrubber Operating Expenses**

Our capital expenditures related to compliance with the Maryland Healthy Air Act included the installation of scrubbers in the fourth quarter of 2009 at our Chalk Point, Dickerson and Morgantown coal-fired units. For the three months ended March 31, 2010, we recognized \$6 million in variable operations and maintenance expense associated with operating the scrubbers. Examples of these costs include limestone, water and chemicals used during the removal of SO<sub>2</sub> emissions, and also include handling and marketing related to the recyclable gypsum byproduct created during the scrubbing process. The gypsum is sold to third parties for use in drywall production. In addition, we recognized approximately \$14 million of higher depreciation expense because the scrubbers were placed in service in December 2009, and we began depreciating the capitalized costs associated with them over the shorter of their expected life or, for the leased Dickerson and Morgantown generating units, their remaining lease term.

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### ***Commodity Prices***

The prices for power and natural gas remain low compared to historical levels. The energy gross margin from our baseload coal units is negatively affected by these price levels. However, we are generally economically neutral for that portion of the generation volumes that we have hedged because our realized gross margin will reflect the contractual prices of our power and fuel contracts. We continue to add hedges opportunistically, including to maintain projected levels of cash flows from operations for future periods to help support continued compliance with the covenants in our debt and lease agreements.

### ***Granted Emissions Allowances***

As a result of the installation of the pollution control equipment at our Maryland generating facilities, we have excess SO<sub>2</sub> and NO<sub>x</sub> emissions allowances. We plan to continue to maintain some SO<sub>2</sub> and NO<sub>x</sub> emissions allowances above those needed for our current expected generation in case our actual generation exceeds our current forecasts for future periods and for possible future additions of generating capacity. At March 31, 2010, the estimated fair value of our projected excess SO<sub>2</sub> and NO<sub>x</sub> emissions allowances was approximately \$18 million.

### ***California Development Activities***

#### ***Mirant Marsh Landing***

On September 2, 2009, Mirant Marsh Landing entered into a ten-year PPA with PG&E for 760 MW of natural gas-fired peaking generation to be constructed adjacent to our Contra Costa generating facility near Antioch, California. Construction of the Marsh Landing generating facility is scheduled to begin in late 2010 and is expected to be completed by mid-2013.

During the ten-year term of the PPA, Mirant Marsh Landing will receive fixed monthly capacity payments and variable operating payments. The contract provides PG&E with the entire output of the 760 MW generating facility, which will be capable of producing 719 MW during peak July conditions. The Mirant Marsh Landing PPA is subject to approval by the CPUC, which we expect to receive during the third quarter of 2010. The construction of the Marsh Landing generating facility is also subject to obtaining necessary permits from the Bay Area Air Quality Management District and the California Energy Commission.

On May 6, 2010, Mirant Marsh Landing entered into a lump sum, turnkey engineering, procurement and construction agreement (the EPC Agreement) with Kiewit Power Constructors Co. (Kiewit) for the construction of the Marsh Landing generating facility. See Part II, Item 5, Other Information for additional information on the EPC Agreement with Kiewit.

#### ***Contra Costa Toll Extension***

On September 2, 2009, Mirant Delta entered into a new agreement with PG&E for the 674 MW of Contra Costa units 6 and 7 for the period from November 2011 through April 2013. At the end of the agreement, and subject to any necessary regulatory approval, Mirant Delta has agreed to retire Contra Costa units 6 and 7, which began operations in 1964, in furtherance of state and federal policies to retire aging power plants that utilize once-through cooling technology. The new Mirant Delta agreement is subject to approval by the CPUC.

#### ***Potrero Settlement Agreement***

On August 13, 2009, Mirant Potrero entered into a Settlement Agreement (the Potrero Settlement) with the City and County of San Francisco. Among other things, the Potrero Settlement obligates Mirant Potrero to close permanently each of the remaining units of the Potrero generating facility at the end of the year in which the CAISO determines that such unit is no longer needed to maintain the reliable operation of the transmission system. Mirant Potrero expects that none of the units of the Potrero generating facility will be required to operate for

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reliability purposes after 2010 and that all of the units will close by the end of 2010. See Note K to our unaudited condensed consolidated financial statements contained elsewhere in this report for further discussion of the Potrero Settlement.

**Results of Operations**

The following discussion of our performance is organized by reportable segment, which is consistent with the way we manage our business.

In the tables below, the Mid-Atlantic region includes our Chalk Point, Dickerson, Morgantown and Potomac River generating facilities. The Northeast region includes our Bowline, Canal, Kendall and Martha's Vineyard generating facilities. The California region includes our Contra Costa, Pittsburg and Potrero generating facilities. The California region also includes business development efforts for new generation in California, including Mirant Marsh Landing. Other Operations includes proprietary trading and fuel oil management activities. Other Operations also includes unallocated corporate overhead, interest expense on debt at Mirant Americas Generation and Mirant North America and interest income on our invested cash balances.



**Table of Contents***Three Months Ended March 31, 2010 versus Three Months Ended March 31, 2009**Consolidated Financial Performance*

We reported net income of \$407 million and \$380 million for the three months ended March 31, 2010 and 2009, respectively. The change in net income is detailed as follows (in millions):

	<b>Three Months Ended March 31,</b>		<b>Increase/ (Decrease)</b>
	<b>2010</b>	<b>2009</b>	
Realized gross margin	\$ 321	\$ 353	\$ (32)
Unrealized gross margin	352	254	98
<b>Total gross margin</b>	<b>673</b>	<b>607</b>	<b>66</b>
Operating Expenses:			
Operations and maintenance	166	162	4
Depreciation and amortization	51	36	15
Gain on sales of assets, net	(2)	(15)	13
<b>Total operating expenses, net</b>	<b>215</b>	<b>183</b>	<b>32</b>
<b>Operating income</b>	<b>458</b>	<b>424</b>	<b>34</b>
Total other expense, net	51	36	15
<b>Income before income taxes</b>	<b>407</b>	<b>388</b>	<b>19</b>
Provision for income taxes		8	(8)
<b>Net income</b>	<b>\$ 407</b>	<b>\$ 380</b>	<b>\$ 27</b>

The following discussion includes non-GAAP financial measures because we present our consolidated financial performance in terms of gross margin. Gross margin is our operating revenue less cost of fuel, electricity and other products, and excludes depreciation and amortization. We present gross margin, excluding depreciation and amortization, as well as its two components realized gross margin and unrealized gross margin in order to be consistent with how we manage our business. Realized gross margin and unrealized gross margin are both non-GAAP financial measures. Realized gross margin represents our gross margin less unrealized gains and losses on derivative financial instruments for the periods presented. Conversely, unrealized gross margin is our unrealized gains and losses on derivative financial instruments for the periods presented. Management generally evaluates our operating results excluding the impact of unrealized gains and losses. None of our derivative financial instruments recorded at fair value is designated as a hedge and changes in their fair values are recognized currently in income as unrealized gains or losses. As a result, our financial results are, at times, volatile and subject to fluctuations in value primarily because of changes in forward electricity and fuel prices. Adjusting our gross margin to exclude unrealized gains and losses provides a measure of performance that eliminates the volatility created by significant shifts in market values between periods. However, our realized and unrealized gross margin may not be comparable to similarly titled non-GAAP financial measures used by other companies. We encourage our investors to review our unaudited condensed consolidated financial statements and other publicly filed reports in their entirety and not to rely on a single financial measure.

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For the three months ended March 31, 2010, our realized gross margin decrease of \$32 million was principally a result of the following:

a decrease of \$39 million in realized value of hedges. In 2010 and 2009, realized value of hedges was \$69 million and \$108 million, respectively, which reflects the amount by which the settlement value of power contracts exceeded market prices for power, offset in part by the amount by which contract prices for fuel exceeded market prices for fuel; partially offset by

an increase of \$8 million in contracted and capacity primarily as a result of higher capacity revenues in Mid-Atlantic and California. Our unrealized gross margin for both periods reflects the following:

unrealized gains of \$352 million in 2010, which included a \$433 million net increase in the value of hedge and trading contracts for future periods primarily related to decreases in forward power and natural gas prices, partially offset by unrealized losses of \$81 million from power and fuel contracts that settled during the period for which net unrealized gains had been recorded in prior periods; and

unrealized gains of \$254 million in 2009, which included a \$341 million net increase in the value of hedge and trading contracts for future periods primarily related to decreases in forward power and natural gas prices, partially offset by unrealized losses of \$87 million from power and fuel contracts that settled during the period for which net unrealized gains had been recorded in prior periods.

### *Operating Expenses*

Our operating expenses increase of \$32 million was primarily a result of the following:

an increase of \$15 million in depreciation and amortization expense primarily as a result of the scrubbers that were placed in service in December 2009;

a decrease of \$13 million in gain on sales of assets primarily related to emissions allowances sold to third parties in 2009; and

an increase of \$4 million in operations and maintenance expense primarily as a result of an increase in costs related to the operation of our scrubbers, offset in part by a decrease in property taxes.

### *Other Expense, Net*

The increase of \$15 million reflects higher interest expense as a result of lower capitalized interest because of the scrubbers that were placed in service in December 2009.

### *Provision for Income Taxes*

The decrease of \$8 million was a result in 2009 of \$5 million of federal alternative minimum tax and \$3 million in California income taxes as a result of the state's suspension of the utilization of NOL carry forwards for the 2008 and 2009 tax years.

**Table of Contents****Gross Margin Overview**

The following tables detail realized and unrealized gross margin for the three months ended March 31, 2010 and 2009, by operating segments (in millions):

	Three Months Ended March 31, 2010					Total
	Mid-Atlantic	Northeast	California	Other Operations	Eliminations	
Energy	\$ 92	\$ (3)	\$	\$ 21	\$	\$ 110
Contracted and capacity	89	23	30			142
Realized value of hedges	57	12				69
Total realized gross margin	238	32	30	21		321
Unrealized gross margin	346	(4)		10		352
Total gross margin	\$ 584	\$ 28	\$ 30	\$ 31	\$	\$ 673

	Three Months Ended March 31, 2009					Total
	Mid-Atlantic	Northeast	California	Other Operations	Eliminations	
Energy	\$ 72	\$ 15	\$	\$ 27	\$ (3)	\$ 111
Contracted and capacity	85	22	27			134
Realized value of hedges	107	1				108
Total realized gross margin	264	38	27	27	(3)	353
Unrealized gross margin	243	26		(15)		254
Total gross margin	\$ 507	\$ 64	\$ 27	\$ 12	\$ (3)	\$ 607

Energy represents gross margin from the generation of electricity, fuel sales and purchases at market prices, fuel handling, steam sales and our proprietary trading and fuel oil management activities.

Contracted and capacity represents gross margin received from capacity sold in ISO and RTO administered capacity markets, through RMR contracts, through tolling agreements and from ancillary services.

Realized value of hedges represents the actual margin upon the settlement of our power and fuel hedging contracts and the difference between market prices and contract costs for coal that we purchased under long-term agreements. Power hedging contracts include sales of both power and natural gas used to hedge power prices, as well as hedges to capture the incremental value related to the geographic location of our physical assets.

Unrealized gross margin represents the net unrealized gain or loss on our derivative contracts, including the reversal of unrealized gains and losses recognized in prior periods and changes in value for future periods.

**Table of Contents****Operating Statistics**

The following table summarizes Net Capacity Factor by region for the three months ended March 31, 2010 and 2009:

	Three Months Ended March 31,		Increase/ (Decrease)
	2010	2009	
Mid-Atlantic	35%	33%	2%
Northeast	7%	16%	(9)%
California	2%	3%	(1)%
Total	21%	22%	(1)%

The following table summarizes power generation volumes by region for the three months ended March 31, 2010 and 2009 (in gigawatt hours):

	Three Months Ended March 31,		Increase/ (Decrease)	Increase/ (Decrease)
	2010	2009		
Mid-Atlantic:				
Baseload	3,972	3,726	246	7%
Intermediate	55	105	(50)	(48)%
Peaking	6	31	(25)	(81)%
Total Mid-Atlantic	4,033	3,862	171	4%
Northeast:				
Baseload	365	365		%
Intermediate	9	534	(525)	(98)%
Total Northeast	374	899	(525)	(58)%
California:				
Intermediate	123	176	(53)	(30)%
Total California	123	176	(53)	(30)%
Total	4,530	4,937	(407)	(8)%

The total decrease in power generation volumes for the three months ended March 31, 2010, as compared to the three months ended March 31, 2009, was primarily the result of the following:

*Mid-Atlantic.* An increase in our Mid-Atlantic baseload generation as a result of an increase in demand because of lower average temperatures and a decrease in planned outages in 2010 compared to 2009.

*Northeast.* A decrease in our Northeast intermediate generation as a result of transmission upgrades in 2009 which reduced the demand for the oil-fired intermediate units at our Canal generating facility.

*California.* All of our California generating facilities operate under tolling agreements or are subject to RMR arrangements. Our natural gas-fired units in service at Contra Costa and Pittsburg operate under tolling agreements with PG&E for 100% of the capacity from these units and our Potrero units are subject to RMR arrangements. Therefore, changes in power generation volumes from those generating facilities, which can be caused by weather, planned outages or other factors, generally do not affect our gross margin.



**Table of Contents***Mid-Atlantic*

Our Mid-Atlantic segment includes four generating facilities with total net generating capacity of 5,194 MW.

The following table summarizes the results of operations of our Mid-Atlantic segment (in millions):

	<b>Three Months Ended March 31,</b>		
	<b>2010</b>	<b>2009</b>	<b>Increase/ (Decrease)</b>
<b>Gross Margin:</b>			
Energy	\$ 92	\$ 72	\$ 20
Contracted and capacity	89	85	4
Realized value of hedges	57	107	(50)
<b>Total realized gross margin</b>	<b>238</b>	<b>264</b>	<b>(26)</b>
Unrealized gross margin	346	243	103
<b>Total gross margin</b>	<b>584</b>	<b>507</b>	<b>77</b>
<b>Operating Expenses:</b>			
Operations and maintenance	113	105	8
Depreciation and amortization	33	24	9
Gain on sales of assets, net	(2)	(8)	6
<b>Total operating expenses, net</b>	<b>144</b>	<b>121</b>	<b>23</b>
<b>Operating income</b>	<b>440</b>	<b>386</b>	<b>54</b>
Total other expense, net	1	1	
<b>Net income</b>	<b>\$ 439</b>	<b>\$ 385</b>	<b>\$ 54</b>

*Gross Margin*

The decrease of \$26 million in realized gross margin was principally a result of the following:

a decrease of \$50 million in realized value of hedges. In 2010, realized value of hedges was \$57 million, which reflects the amount by which the settlement value of power contracts exceeded market prices for power, partially offset by the amount by which contract prices for coal that we purchased under long-term agreements exceeded market prices for coal. In 2009, realized value of hedges was \$107 million, which reflects the amount by which the settlement value of power contracts exceeded market prices for power; partially offset by

an increase of \$20 million in energy primarily as a result of higher generation volumes, a decrease in the price of coal and a decrease in the cost of emissions allowances, partially offset by a decrease in the average settlement price for power; and

an increase of \$4 million in contracted and capacity primarily related to higher capacity prices and additional volumes in 2010. Our unrealized gross margin for both periods reflects the following:

unrealized gains of \$346 million in 2010, which included a \$396 million net increase in the value of hedge contracts for future periods primarily related to decreases in forward power and natural gas prices, partially offset by unrealized losses of \$50 million from power and fuel contracts that settled during the period for which net unrealized gains had been recorded in prior periods; and

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unrealized gains of \$243 million in 2009, which included a \$312 million net increase in the value of hedge contracts for future periods primarily related to decreases in forward power and natural gas prices, partially offset by unrealized losses of \$69 million from power and fuel contracts that settled during the period for which net unrealized gains had been recorded in prior periods.

*Operating Expenses*

Our operating expense increase of \$23 million was primarily a result of the following:

an increase of \$9 million in depreciation and amortization expense primarily as a result of the scrubbers that were placed in service in December 2009, offset in part by a decrease in the carrying value of the Potomac River generating facility as a result of the impairment charge taken in the fourth quarter of 2009;

an increase of \$8 million in operations and maintenance expense primarily as a result of an increase in costs related to the operation of our scrubbers, offset in part by a decrease in outages; and

a decrease of \$6 million in gain on sales of assets primarily related to emissions allowances sold to third parties in 2009.

*Northeast*

Our Northeast segment is comprised of our three generating facilities located in Massachusetts and one generating facility located in New York with total net generating capacity of 2,535 MW.

The following table summarizes the results of operations of our Northeast segment (in millions):

	<b>Three Months Ended March 31,</b>		<b>Increase/ (Decrease)</b>
	<b>2010</b>	<b>2009</b>	
<b>Gross Margin:</b>			
Energy	\$ (3)	\$ 15	\$ (18)
Contracted and capacity	23	22	1
Realized value of hedges	12	1	11
<b>Total realized gross margin</b>	<b>32</b>	<b>38</b>	<b>(6)</b>
Unrealized gross margin	(4)	26	(30)
<b>Total gross margin</b>	<b>28</b>	<b>64</b>	<b>(36)</b>
<b>Operating Expenses:</b>			
Operations and maintenance	24	32	(8)
Depreciation and amortization	6	4	2
Gain on sales of assets, net		(2)	2
<b>Total operating expenses, net</b>	<b>30</b>	<b>34</b>	<b>(4)</b>
<b>Net income (loss)</b>	<b>\$ (2)</b>	<b>\$ 30</b>	<b>\$ (32)</b>

*Gross Margin*

The decrease of \$6 million in realized gross margin was principally a result of the following:



a decrease of \$18 million in energy primarily as a result of a decrease in generation volumes from our oil-fired intermediate units as a result of transmission upgrades in 2009; partially offset by

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an increase of \$11 million in realized value of hedges. In 2010, realized value of hedges was \$12 million, which reflects the amount by which the settlement value of power contracts exceeded market prices and the amount by which market prices for fuel exceeded contract prices for fuel. In 2009, realized value of hedges was \$1 million, which reflects the amount by which the settlement value of power contracts exceeded market prices for power, offset by the amount by which contract prices for fuel exceeded market prices for fuel.

Our unrealized gross margin for both periods reflects the following:

unrealized losses of \$4 million in 2010, which included unrealized losses of \$10 million from power and fuel contracts that settled during the period for which net unrealized gains had been recorded in prior periods, partially offset by a \$6 million net increase in the value of hedge contracts for future periods primarily related to decreases in forward power and fuel prices; and

unrealized gains of \$26 million in 2009, which included a \$25 million net increase in the value of hedge contracts for future periods primarily related to decreases in forward power and fuel prices and unrealized gains of \$1 million from power and fuel contracts that settled during the period for which net unrealized losses had been recorded in prior periods.

*Operating Expenses*

Our operating expense decrease of \$4 million was primarily a result of a decrease in property taxes because of a lower assessed value for the site of the demolished Lovett generating facility.

*California*

Our California segment consists of the Contra Costa, Pittsburg and Potrero generating facilities with total net generating capacity of 2,347 MW and includes business development efforts for new generation in California, including Mirant Marsh Landing.

The following table summarizes the results of operations of our California segment (in millions):

	<b>Three Months Ended March 31,</b>		
	<b>2010</b>	<b>2009</b>	<b>Increase/ (Decrease)</b>
<b>Gross Margin:</b>			
Contracted and capacity	\$ 30	\$ 27	\$ 3
Total realized gross margin	30	27	3
Unrealized gross margin			
Total gross margin	30	27	3
<b>Operating Expenses:</b>			
Operations and maintenance	20	19	1
Depreciation and amortization	8	5	3
Gain on sales of assets, net		(1)	1
Total operating expenses, net	28	23	5
Operating income	2	4	(2)
Total other expense, net		1	(1)
Net income	\$ 2	\$ 3	\$ (1)



**Table of Contents***Gross Margin*

All of our California generating facilities operate under tolling agreements or are subject to RMR arrangements. Our natural gas-fired units in service at Contra Costa and Pittsburg operate under tolling agreements with PG&E for 100% of the capacity from these units, and our Potrero units are subject to RMR arrangements. Therefore, our gross margin generally is not affected by changes in power generation volumes from those facilities.

*Operating Expenses*

Our operating expense increase of \$5 million was primarily a result of a decrease in the useful life of our Potrero generating facility because of the settlement with the City of San Francisco executed in the third quarter of 2009.

*Other Operations*

Other Operations includes proprietary trading and fuel oil management activities, unallocated corporate overhead, interest expense on debt at Mirant Americas Generation and Mirant North America and interest income on our invested cash balances.

The following table summarizes the results of operations of our Other Operations segment (in millions):

	<b>Three Months Ended March 31,</b>		<b>Increase/ (Decrease)</b>
	<b>2010</b>	<b>2009</b>	
<b>Gross Margin:</b>			
Energy	\$ 21	\$ 27	\$ (6)
<b>Total realized gross margin</b>	<b>21</b>	<b>27</b>	<b>(6)</b>
Unrealized gross margin	10	(15)	25
<b>Total gross margin</b>	<b>31</b>	<b>12</b>	<b>19</b>
<b>Operating Expenses:</b>			
Operations and maintenance	9	6	3
Depreciation and amortization	4	3	1
<b>Total operating expenses, net</b>	<b>13</b>	<b>9</b>	<b>4</b>
<b>Operating income</b>	<b>18</b>	<b>3</b>	<b>15</b>
<b>Total other expense, net</b>	<b>50</b>	<b>34</b>	<b>16</b>
<b>Loss before income taxes</b>	<b>\$ (32)</b>	<b>\$ (31)</b>	<b>\$ (1)</b>

*Gross Margin*

The decrease of \$6 million in realized gross margin was principally a result of a \$13 million decrease in gross margin from proprietary trading activities, partially offset by a \$7 million increase in gross margin from our fuel oil management activities. The decrease in proprietary trading activities was a result of a decrease in the realized value associated with power positions in 2010 as compared to 2009. The increase in fuel oil management activities was a result of higher gross margin on sales of fuel oil inventory to third parties and affiliates as a result of higher market prices.

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Our unrealized gross margin for both periods reflects the following:

unrealized gains of \$10 million in 2010, which included a \$31 million net increase in the value of trading contracts for future periods, partially offset by unrealized losses of \$21 million from power and fuel contracts that settled during the period for which net unrealized gains had been recorded in prior periods; and

unrealized losses of \$15 million in 2009, which included unrealized losses of \$19 million from power and fuel contracts that settled during the period for which net unrealized gains had been recorded in prior periods, partially offset by unrealized gains of \$4 million as a result of decreases in forward power and fuel contracts.

*Operating Expenses*

Our operating expense increase of \$4 million includes \$2 million of merger-related costs incurred in 2010.

*Other Expense, Net*

The increase of \$16 million in other expense, net was principally the result of an increase of \$13 million in interest expense primarily related to lower capitalized interest because of the scrubbers that were placed in service in December 2009.

**Table of Contents****Financial Condition****Liquidity and Capital Resources**

We expect that we will have sufficient liquidity for our future operations and capital expenditures, and to service our debt obligations. We regularly monitor our ability to finance the needs of our operating, investing and financing activities. See Note C to our unaudited condensed consolidated financial statements contained elsewhere in this report for additional discussion of our debt.

**Sources of Funds**

The principal sources of our liquidity are expected to be: (1) existing cash on hand (including \$1.5 billion at Mirant Corporation) and expected cash flows from the operations of our subsidiaries, (2) letters of credit issued or borrowings made under Mirant North America's senior secured revolving credit facility, (3) letters of credit issued under Mirant North America's senior secured term loan and (4) planned project financing for the Mirant Marsh Landing generating facility. As described in Overview in this Item 2, the completion of the proposed merger with RRI Energy is conditioned on GenOn Energy consummating certain debt financing transactions, including securing a new revolving credit facility. The new GenOn Energy debt financing and revolving credit facility will be used, in part, to redeem the Mirant North America senior notes and to repay and terminate the Mirant North America term loan and revolving credit facility.

The table below sets forth total cash, cash equivalents and availability under credit facilities of Mirant and its subsidiaries (in millions):

	At March 31, 2010	At December 31, 2009
Cash and Cash Equivalents:		
Mirant Corporation	\$ 1,505	\$ 1,524
Mirant Americas Generation	20	1
Mirant North America	356	278
Mirant Mid-Atlantic	197	125
Other	27	25
Total cash and cash equivalents	2,105	1,953
Less: cash restricted and reserved for other purposes	(11)	(11)
Total available cash and cash equivalents	2,094	1,942
Available under credit facilities	635	680
Total cash, cash equivalents and credit facilities availability	\$ 2,729	\$ 2,622

We consider all short-term investments with an original maturity of three months or less to be cash equivalents. At March 31, 2010 and December 31, 2009, except for amounts held in bank accounts to cover upcoming payables, all of our cash and cash equivalents were invested in AAA-rated United States Treasury money market funds.

Available under credit facilities at March 31, 2010 and December 31, 2009, reflects a \$45 million effective reduction as a result of the bankruptcy filing of Lehman Commercial Paper, Inc., a lender under the Mirant North America senior secured revolving credit facility.

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We and certain of our subsidiaries, including Mirant Americas Generation and Mirant North America, are holding companies. The chart below is a summary representation of our capital structure and is not a complete corporate organizational chart.

Except for existing cash on hand and, in the case of Mirant North America, borrowings and letters of credit under its credit facilities, the Mirant Corporation, Mirant Americas Generation and Mirant North America holding companies are dependent for liquidity on the distributions and dividends of their subsidiaries. The ability of Mirant North America and its subsidiary, Mirant Mid-Atlantic, to make distributions and pay dividends is restricted under the terms of their debt agreements and leveraged lease documentation, respectively. At March 31, 2010, Mirant North America had distributed to its parent, Mirant Americas Generation, all available cash that was permitted to be distributed under the terms of its debt agreements, leaving \$553 million at Mirant North America and its subsidiaries. Of this amount, \$197 million was held by Mirant Mid-Atlantic which, as of March 31, 2010, met the tests under the leveraged lease documentation permitting it to make distributions to Mirant North America. Although Mirant North America is in compliance with its financial covenants, as of March 31, 2010, it is restricted from making distributions by the free cash flow requirements under the restricted payment test of its senior credit facility. The primary factor lowering the free cash flow calculation for Mirant North America is the significant

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capital expenditure program of Mirant Mid-Atlantic to install emissions controls at its Chalk Point, Dickerson and Morgantown coal-fired units to comply with the Maryland Healthy Air Act. When the capital expenditures no longer affect the calculation of its free cash flow, Mirant North America is expected to be able again to make distributions. We do not expect the liquidity effect of the restriction on distributions under the Mirant North America senior credit facility to be material given that the majority of our liquidity needs arise from the activities of Mirant North America and its subsidiaries, the restriction does not limit Mirant North America from making distributions to Mirant Americas Generation to fund interest payments on its senior notes and the majority of our total available cash and cash equivalents is held unrestricted at Mirant Corporation.

### ***Uses of Funds***

Our requirements for liquidity and capital resources, other than for the day-to-day operation of our generating facilities, are significantly influenced by the following activities: (1) capital expenditures, (2) debt service and payments under the Mirant Mid-Atlantic leveraged leases, (3) collateral required for our asset management and proprietary trading and fuel oil management activities and (4) the development of new generating facilities, in particular, the Mirant Marsh Landing generating facility.

*Capital Expenditures.* Our capital expenditures, excluding capitalized interest for the three months ended March 31, 2010, were \$85 million. Our estimated capital expenditures, excluding capitalized interest, for the period April 1, 2010, through December 31, 2011, are expected to be \$711 million. See *Capital Expenditures and Capital Resources* in this Item 2 for further discussion of our capital expenditures.

*Cash Collateral and Letters of Credit.* In order to sell power and purchase fuel in the forward markets and perform other energy trading and marketing activities, we often are required to provide credit support to our counterparties or make deposits with brokers. In addition, we often are required to provide cash collateral or letters of credit to access the transmission grid, to participate in power pools, to fund debt service and rent reserves and for other operating activities. Credit support includes cash collateral, letters of credit, surety bonds and financial guarantees. In the event that we default, the counterparty can draw on a letter of credit or apply cash collateral held to satisfy the existing amounts outstanding under an open contract. As of March 31, 2010, we had approximately \$98 million of posted cash collateral and \$255 million of letters of credit outstanding primarily to support our asset management activities, trading activities, debt service and rent reserve requirements, and other commercial arrangements. Included in the letter of credit amount outstanding is a \$12 million cash-collateralized letter of credit in support of the Mirant Marsh Landing PPA with PG&E, which amount will increase to approximately \$80 million upon CPUC approval of the PPA. Our liquidity requirements are highly dependent on the level of our hedging activities, forward prices for energy, emissions allowances and fuel, commodity market volatility and credit terms with third parties. See Note D to our unaudited condensed consolidated financial statements contained elsewhere in this report for additional information.



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The following table summarizes cash collateral posted with counterparties and brokers, letters of credit issued and surety bonds provided (in millions):

	At March 31, 2010	At December 31, 2009
Cash collateral posted energy trading and marketing	\$ 57	\$ 41
Cash collateral posted other operating activities	41	43
Letters of credit energy trading and marketing	102	51
Letters of credit debt service and rent reserves	101	101
Letters of credit other operating activities	52	59
Surety bonds	6	5
<b>Total</b>	<b>\$ 359</b>	<b>\$ 300</b>

***Debt Obligations, Off-Balance Sheet Arrangements and Contractual Obligations***

There were no significant changes to our debt obligations, off-balance sheet arrangements and contractual obligations as of March 31, 2010, from those presented in our 2009 Annual Report on Form 10-K.

***Marsh Landing Generating Facility EPC Agreement***

On May 6, 2010, Mirant Marsh Landing entered into an EPC Agreement with Kiewit for the construction of the Marsh Landing generating facility. See Part II, Item 5, Other Information for additional information on the EPC Agreement with Kiewit.

***Cash Flows******Continuing Operations***

***Operating Activities.*** Our cash provided by operating activities is affected by seasonality, changes in energy prices and fluctuations in our working capital requirements. Net cash provided by operating activities from continuing operations increased \$31 million for the three months ended March 31, 2010, compared to the same period in 2009, primarily as a result of the following:

***Net accounts receivable and payable.*** A decrease in cash used of \$84 million primarily related to a decrease in our net accounts receivable and payable as a result of a decrease in power prices in 2010 compared to the same period in 2009. In addition, the implementation in June 2009 of weekly settlements with PJM (in lieu of monthly settlements) has reduced the amount of outstanding receivables for the PJM market;

***Inventories.*** A decrease in cash used of \$13 million primarily as a result of lower volumes of coal purchased and an increase in fuel oil sales, partially offset by an increase in fuel oil inventory prices in 2010 as compared to 2009; and

***Other operating assets and liabilities.*** A decrease in cash used of \$5 million related to changes in other operating assets and liabilities. The decreases in cash used in operating activities were partially offset by the following:

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*Realized gross margin.* A decrease in cash provided of \$34 million in 2010, compared to the same period in 2009, excluding a decrease in non-cash lower of cost or market fuel inventory adjustments of \$2 million. See *Results of Operations* in this Item 2 for additional discussion of our performance in 2010 compared to the same period in 2009;

*Accounts payable, collateral.* An increase in cash used of \$26 million as a result of \$9 million returned to counterparties in 2010 as compared to \$17 million received from counterparties in 2009; and

*Funds on deposit.* An increase in cash used of \$11 million. We posted an additional \$14 million in collateral in 2010 compared to an additional \$3 million in 2009.

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*Investing Activities.* Net cash used in investing activities decreased by \$76 million for the three months ended March 31, 2010, compared to the same period in 2009. This difference was primarily a result of the following:

*Capital expenditures.* A decrease in cash used of \$86 million primarily related to placing scrubbers for our Maryland generating facilities in service in the fourth quarter of 2009 as part of our compliance with the Maryland Healthy Air Act; and

*Capital contributions paid to subsidiaries.* A decrease in cash used of \$4 million related to our obligation to fund MC Asset Recovery in 2009 which, in 2010, we are no longer obligated to fund; offset by

*Proceeds from the sales of assets.* A decrease in cash provided of \$13 million primarily related to the sales of emissions allowances in 2009 as compared to 2010.

*Financing Activities.* Net cash used in financing activities increased by \$29 million for the three months ended March 31, 2010, compared to the same period in 2009. This difference was primarily a result of the repayment of long-term debt.

### *Discontinued Operations*

*Operating Activities.* In 2010 and 2009, net cash provided by operating activities from discontinued operations was primarily from the sale of transmission credits from our previously owned Wrightsville generating facility.

## **Environmental and Regulatory Matters**

*Regulation of Greenhouse Gases, including the RGGI.* Concern over climate change has led to significant legislative and regulatory efforts at the state and federal level to limit greenhouse gas emissions, especially CO<sub>2</sub>. One such effort is the RGGI, a multi-state initiative in the Mid-Atlantic and Northeast outlining a cap-and-trade program to reduce CO<sub>2</sub> emissions from electric generating units with capacity of 25 MW or greater. The RGGI program calls for signatory states, which include Maryland, Massachusetts and New York, to stabilize CO<sub>2</sub> emissions to an established baseline from 2009 through 2014, followed by a 2.5% reduction each year from 2015 through 2018. Each of these three states has promulgated regulations implementing the RGGI. Complying with the RGGI could have a material adverse effect upon our operations and our operating costs, depending upon the availability and cost of emissions allowances and the extent to which such costs may be offset by higher market prices to recover increases in operating costs caused by the RGGI.

During 2009, we produced approximately 14.6 million tons of CO<sub>2</sub> at our Maryland, Massachusetts and New York generating facilities for a total cost of \$45 million under the RGGI. In 2010, we expect to produce approximately 15.8 million tons of CO<sub>2</sub> at our Maryland, Massachusetts and New York generating facilities. The RGGI regulations required those facilities to obtain allowances to emit CO<sub>2</sub> beginning in 2009. Annual allowances generally were not granted to existing sources of such emissions. Instead, allowances have been made available for such facilities by purchase through periodic auctions conducted quarterly or through subsequent purchase from a party that holds allowances sold through a quarterly auction process. The Maryland regulations implementing the RGGI, which were amended on May 8, 2009, also provide that if the allowance clearing price reaches or exceeds \$7 per ton of CO<sub>2</sub> in the auctions of allowances that occur during 2009 to 2011 for the current year's allowances, Maryland will withhold the remainder of that year's allowances from sale in any future auction during that calendar year and make those allowances available by direct sale to generators in Maryland. In this scenario, between 0% and 50% of Maryland's allowances allocated for sale in that year may be

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made available for purchase by such generators. Any such allowances made available for each generator to purchase at \$7 per ton will be in proportion to each generator's annual average heat input during specified historical periods as compared to the total average input for all affected Maryland generators in existence at that time. In none of the auctions held to date has the price reached \$7 per ton.

The seventh auction of allowances by the RGGI states was held on March 10, 2010. The clearing price for the approximately 41 million allowances sold in the auction allocated for use beginning in 2009 was \$2.07 per ton. Allowances allocated for use beginning in 2012 were also made available, and substantially all of the 2.1 million allowances available at the auction were sold at a price of \$1.86 per ton. The allowances sold in this auction may be used for compliance in any of the RGGI states. Further auctions will occur quarterly through the end of the first compliance period in 2011, with the next auction scheduled for June 9, 2010.

In California, emissions of greenhouse gases are governed by California's Global Warming Solutions Act ( AB 32 ), which requires that statewide greenhouse gas emissions be reduced to 1990 levels by 2020. In December 2008, the California Air Resources Board ( CARB ) approved a Scoping Plan for implementing AB 32. The Scoping Plan requires that the CARB adopt a cap-and-trade regulation by January 2011 and that the cap and trade program begin in 2012. The CARB's schedule for developing regulations to implement AB 32 is being coordinated with the schedule of the Western Climate Initiative ( WCI ) for development of a regional cap-and-trade program for greenhouse gas emissions. Through the WCI, California is working with other western states and Canadian provinces to coordinate and implement a regional cap-and-trade program. AB 32, and any plans, rules and programs approved to implement AB 32, could have a material adverse effect on how we operate our California generating facilities and the costs of operating the facilities.

In August 2008, Massachusetts adopted its Global Warming Solutions Act (the Climate Protection Act ), which establishes a program to reduce greenhouse gas emissions significantly over the next 40 years. Under the Climate Protection Act, the Commonwealth of Massachusetts Department of Environmental Protection ( MADEP ) has established a reporting and verification system for statewide greenhouse gas emissions, including emissions from generating facilities producing all electricity consumed in Massachusetts, and determined the state's greenhouse gas emissions level from 1990. The Massachusetts Executive Office of Energy and Environmental Affairs ( MAEEA ) is to establish statewide greenhouse gas emissions limits effective beginning in 2020 that will reduce such emissions from the 1990 levels by a range of 10% to 25% beginning in 2020, with the reduction increasing to 80% below 1990 levels by 2050. In setting these limits, the MAEEA is to consider the potential costs and benefits of various reduction measures, including emissions limits for electric generating facilities, and may consider the use of market-based compliance mechanisms. A violation of the emissions limits established under the Climate Protection Act may result in a civil penalty of up to \$25,000 per day. Implementation of the Climate Protection Act could have a material adverse effect on how we operate our Massachusetts generating facilities and the costs of operating those facilities.

In April 2009, the Maryland General Assembly passed the Greenhouse Gas Reduction Act of 2009 (the Maryland Act ), which became effective in October 2009. The Maryland Act requires a reduction in greenhouse gas emissions in Maryland by 25% from 2006 levels by 2020. However, this provision of the Maryland Act is only in effect through 2016 unless a subsequent statutory enactment extends its effective period. The Maryland Act requires the MDE to develop a proposed implementation plan to achieve these reductions by the end of 2011 and to adopt a final plan by the end of 2012.

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In light of the United States Supreme Court ruling in *Massachusetts v. EPA* that greenhouse gases fit within the Clean Air Act's definition of air pollutant, the EPA has proposed and promulgated regulations regarding the emission of greenhouse gases. In September 2009, the EPA promulgated a rule that requires owners of facilities in many sectors of the economy, including power generation, to report annually to the EPA the quantity and source of greenhouse gas emissions released from those facilities. In December 2009, under a portion of the Clean Air Act that regulates vehicles, the EPA determined that elevated concentrations of greenhouse gases in the atmosphere endanger the public's health and welfare through their contribution to climate change (Endangerment Finding). In April 2010, the EPA finalized the rule to regulate greenhouse gases from vehicles beginning in model year 2012. The EPA has stated that, because of this vehicle rule, emissions of greenhouse gases from new stationary sources such as power plants and from major modifications to such sources will become subject to certain Clean Air Act permitting requirements as of January 2011. These permitting requirements will require such sources to use best available control technology to limit their greenhouse gases, but the EPA has not provided guidance as to what this technology may be. The additional procedural and substantive requirements under the Clean Air Act that may apply or may come to apply to stationary sources such as power plants are not clear at this time.

Various bills have been proposed in Congress to govern CO<sub>2</sub> emissions from generating facilities. Current proposals include a cap-and-trade system that would require us to purchase allowances for some or all of the CO<sub>2</sub> emitted by our generating facilities. Although we expect that market prices for electricity would increase following such legislation and would allow us to recover a portion of the cost of these allowances, we cannot predict with any certainty the actual increases in costs such legislation could impose upon us or our ability to recover such cost increases through higher market rates for electricity, and such legislation could have a material adverse effect on our consolidated statements of operations, financial position and cash flows. It is possible that Congress will take action to regulate greenhouse gas emissions within the next several years. The form and timing of any final legislation will be influenced by political and economic factors and is uncertain at this time. During 2009, we produced approximately 16.1 million tons of CO<sub>2</sub> at our generating facilities. We expect to produce approximately 17.4 million total tons of CO<sub>2</sub> at our generating facilities in 2010.

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### **Critical Accounting Estimates**

The sections below contain updates to our summary of critical accounting estimates included under Item 7, *Management's Discussion and Analysis of Results of Operations and Financial Condition*, in our 2009 Annual Report on Form 10-K.

#### ***Revenue Recognition and Accounting for Energy Trading and Marketing Activities***

*Nature of Estimates Required.* We utilize two comprehensive accounting models, an accrual model and a fair value model, in reporting our results of operations and financial position. We determine the appropriate model for our operations based on applicable accounting standards.

The accrual model is used to account for our revenues from the sale of energy, capacity and ancillary services. We recognize revenue when it has been earned and collection is probable as a result of electricity delivered or capacity available to customers pursuant to contractual commitments that specify volume, price and delivery requirements. Sales of energy are based on economic dispatch, or they may be as-ordered by an ISO or RTO, based on member participation agreements, but without an underlying contractual commitment. ISO and RTO revenues and revenues for sales of energy based on economic dispatch are recorded on the basis of MWh delivered, at the relevant day-ahead or real-time prices.

The fair value model is used to measure fair value on a recurring basis for derivative energy contracts that are used to manage our exposure to commodity price risk or that are used in our proprietary trading and fuel oil management activities. We use a variety of derivative financial instruments, such as futures, forwards, swaps and option contracts, in the management of our business. Such derivative financial instruments have varying terms and durations, or tenors, which range from a few days to a number of years, depending on the instrument.

Derivative financial instruments are reflected in our unaudited condensed consolidated financial statements at fair value, with changes in fair value recognized currently in income unless they qualify for a scope exception pursuant to the accounting guidance. Management considers fair value techniques and valuation adjustments related to credit and liquidity to be critical accounting estimates. These estimates are considered significant because they are highly susceptible to change from period to period and are dependent on many subjective factors. The fair value of derivative financial instruments is included in derivative contract assets and liabilities in our unaudited condensed consolidated balance sheets. Transactions that are not accounted for using the fair value model under the accounting guidance for derivative financial instruments are either not derivatives or qualify for a scope exception and are accounted for under accrual accounting. We recognize immediately in income inception gains and losses for transactions at other than the bid price or ask price.

*Key Assumptions and Approach Used.* Determining the fair value of our derivatives is based largely on observable quoted prices from exchanges and independent brokers in active markets. We think that these prices represent the best available information for valuation purposes. For most delivery locations and tenors where we have positions, we receive multiple independent broker price quotes. In accordance with the exit price objective under the fair value measurements accounting guidance, the fair value of our derivative contract assets and liabilities is determined based on the net underlying position of the recorded derivative contract assets and liabilities using bid prices for our assets and ask prices for liabilities. If no active market exists, we estimate the fair value of certain derivative financial instruments using price extrapolation, interpolation and other quantitative methods. We have not identified any distressed market conditions that would alter our valuation techniques at March 31, 2010. Fair value estimates involve uncertainties and matters of significant judgment. Our techniques for fair value estimation include assumptions for market prices, correlation and volatility. The degree of estimation

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increases for longer duration contracts, contracts with multiple pricing features, option contracts and off-hub delivery points. Note B to our unaudited condensed consolidated financial statements contained elsewhere in this report explains the fair value hierarchy. Our assets and liabilities classified as Level 3 in the fair value hierarchy represent approximately 3% of our total assets and less than 1% of our total liabilities measured at fair value at March 31, 2010.

The fair value of derivative contract assets and liabilities in our unaudited condensed consolidated balance sheets is also affected by our assumptions as to time value, credit risk and non-performance risk. The nominal value of the contracts is discounted using a forward interest rate curve based on LIBOR. In addition, the fair value of our derivative contract assets is reduced to reflect the estimated default risk of counterparties on their contractual obligations to us. The default risk of our counterparties for a significant portion of our overall net position is measured based on published spreads on credit default swaps. The fair value of our derivative contract liabilities is reduced to reflect our estimated risk of default on our contractual obligations to counterparties and is measured based on published default rates of our debt. The credit risk reflected in the fair value of our derivative contract assets and the non-performance risk reflected in the fair value of our derivative contract liabilities are calculated with consideration of our master netting agreements with counterparties and our exposure is reduced by cash collateral posted to us against these obligations.

*Effect if Different Assumptions Used.* The amounts recorded as revenue or cost of fuel, electricity and other products change as estimates are revised to reflect actual results and changes in market conditions or other factors, many of which are beyond our control. Because we use derivative financial instruments and have not elected cash flow or fair value hedge accounting, certain components of our financial statements, including gross margin, operating income and balance sheet ratios, are at times volatile and subject to fluctuations in value primarily as a result of changes in forward energy and fuel prices. Significant negative changes in fair value could require us to post additional collateral either in the form of cash or letters of credit. Because the fair value measurements of our material assets and liabilities are based on observable market information, there is not a significant range of values around the fair value estimate. For our derivative financial instruments that are measured at fair value using quantitative pricing models, a significant change in estimate could affect our results of operations and cash flows at the time contracts are ultimately settled. The estimated fair value of our derivative contract assets and liabilities was a net asset of \$1.054 billion at March 31, 2010. A 10% change in electricity and fuel prices would result in approximately a \$205 million change in the fair value of our net asset at March 31, 2010. See Item 3, *Quantitative and Qualitative Disclosures About Market Risk* for further sensitivities in our assumptions used to calculate fair value. See Note B to our unaudited condensed consolidated financial statements contained elsewhere in this report for further information on derivative financial instruments related to energy trading and marketing activities.

***Estimated Useful Lives***

*Nature of Estimates Required.* The estimated useful lives of our long-lived assets are used to compute depreciation expense, determine the carrying value of asset retirement obligations and estimate expected future cash flows attributable to an asset for the purposes of impairment testing. Estimated useful lives are based, in part, on the assumption that we provide an appropriate level of capital expenditures while the assets are still in operation. Without these continued capital expenditures, the useful lives of these assets could decrease significantly.

*Key Assumptions and Approach Used.* Estimated useful lives are the mechanism by which we allocate the cost of long-lived assets over the asset's service period. We perform depreciation studies periodically to update changes in estimated useful lives. The actual useful life of an asset

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could be affected by changes in estimated or actual commodity prices, environmental regulations, various legal factors, competitive forces and our liquidity and ability to sustain required maintenance expenditures and satisfy asset retirement obligations. We use composite depreciation for groups of similar assets and establish an average useful life for each group of related assets. In accordance with the accounting guidance related to evaluating long-lived assets for impairment, we cease depreciation on long-lived assets classified as held for sale. Also, we may revise the remaining useful life of an asset held and used subject to impairment testing.

We completed a depreciation study in the first quarter of 2010 that resulted in a change to the estimated useful lives of our long-lived assets. The change in useful lives resulted in a decrease of approximately \$1 million in depreciation and amortization expense for the three months ended March 31, 2010, and an increase of \$0.01 in basic and diluted earnings per share for the three months ended March 31, 2010. In addition, the change in useful lives also resulted in an increase of \$9 million in asset retirement obligations and a corresponding increase of \$9 million in property, plant and equipment, net at March 31, 2010.

*Effect if Different Assumptions Used.* The determination of estimated useful lives is dependent on subjective factors such as expected market conditions, commodity prices and anticipated capital expenditures. Since composite depreciation rates are used, the actual useful life of a particular asset may differ materially from the useful life estimated for the related group of assets.

### ***Asset Impairments***

*Nature of Estimates Required.* We evaluate our long-lived assets, including intangible assets, for impairment in accordance with applicable accounting guidance. The amount of an impairment charge is calculated as the excess of the asset's carrying value over its fair value, which generally represents the discounted expected future cash flows attributable to the asset, or in the case of an asset we expect to sell, as its fair value less costs to sell.

The accounting guidance related to impairments of long-lived assets requires management to recognize an impairment charge if the sum of the undiscounted expected future cash flows from a long-lived asset or definite-lived intangible asset is less than the carrying value of that asset. We evaluate our long-lived assets (property, plant and equipment) and definite-lived intangible assets for impairment whenever indicators of impairment exist or when we commit to sell the asset. These evaluations of long-lived assets and definite-lived intangible assets may result from significant decreases in the market price of an asset, a significant adverse change in the extent or manner in which an asset is being used or in its physical condition, a significant adverse change in legal factors or in the business climate that could affect the value of an asset, as well as other economic or operational analyses. If the carrying amount is not recoverable, an impairment charge is recorded.

The continued decline in natural gas prices has caused power prices to continue to decline over the past year, thereby reducing the energy gross margin earned by our generating facilities. Additionally, the current economic recession and various demand-response programs have resulted in a decrease in the forecasted gross margin of our generating facilities. On an ongoing basis, we evaluate our long-lived assets for indications of impairment; however, given the remaining useful lives for many of our generating facilities, the total undiscounted cash flows for these generating facilities are more significantly affected by the long-term view of supply and demand than by the short term fluctuations in energy prices and demand. As such, we typically do not consider short term decreases in either energy prices or demand to cause an impairment evaluation.



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*Key Assumptions and Approach Used.* The impairment evaluation is a two-step process, the first of which involves comparing the undiscounted cash flows to the carrying value of the asset. If the carrying value exceeds the undiscounted cash flows, the fair value of the asset must be calculated on a discounted basis. The fair value of an asset is the price that would be received from a sale of the asset in an orderly transaction between market participants at the measurement date. Quoted market prices in active markets are the best evidence of fair value and are used as the basis for the measurement, when available. In the absence of quoted prices for identical or similar assets, fair value is estimated using various internal and external valuation methods. These methods include discounted cash flow analyses and reviewing available information on comparable transactions. The determination of fair value requires management to apply judgment in estimating future capacity and energy prices, environmental and maintenance expenditures and other cash flows. Our estimates of the fair value of the assets include significant assumptions about the timing of future cash flows, remaining useful lives and the selection of a discount rate that represents the estimated weighted average cost of capital consistent with the risk inherent in future cash flows.

*Mirant Bowline* We continue to monitor developments related to market prices for capacity and energy, supply and demand forecasts from the NYISO and the status of legal proceedings related to property taxes to determine if further impairment analyses in future periods are required. In April 2010, the NYISO issued its annual peak load and energy forecast, which we are in the process of evaluating. If the Bowline generating facility's total projected future capacity revenues decrease by greater than approximately 20% from our prior projections, we will likely record an impairment charge in future periods. The carrying value of the Bowline generating facility represented approximately 4% of our total property, plant and equipment, net at March 31, 2010.

*Mirant Canal* We continue to monitor developments related to our Canal generating facility, including market prices for capacity, supply and demand forecasts from ISO-NE and proceedings in which Mirant Canal is seeking renewal of its NPDES permit. The carrying value of the Canal generating facility represented approximately 5% of our total property, plant and equipment, net at March 31, 2010.

*Mirant Mid-Atlantic* We continue to monitor developments related to the leasehold improvements and owned units of the Dickerson generating facility, including the latest supply and demand forecast from PJM. The results of the fourth quarter 2009 impairment review indicated that the undiscounted cash flows exceeded the carrying value by approximately 20%. The carrying value of the leasehold improvements and owned units of the Dickerson generating facility represented approximately 15% of our total property, plant and equipment, net at March 31, 2010.

***Litigation***

We are currently involved in certain legal proceedings. We estimate the range of liability through discussions with applicable legal counsel and analysis of case law and legal precedents. We record our best estimate of a loss, or the low end of our range if no estimate is better than another estimate within a range of estimates, when the loss is considered probable and can be reasonably estimated. As additional information becomes available, we reassess the potential liability related to our pending litigation and revise our estimates. Revisions in our estimates of the potential liability could materially affect our results of operations and the ultimate resolution may be materially different from the estimates that we make.

See Note J to our unaudited condensed consolidated financial statements contained elsewhere in this report for further information related to our legal proceedings.

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*Recently Adopted Accounting Guidance*

See Note A to our unaudited condensed consolidated financial statements contained elsewhere in this report for further information related to our recently adopted accounting guidance.

**Table of Contents****Item 3. Quantitative and Qualitative Disclosures About Market Risk**

We are exposed to market risk, primarily associated with commodity prices. We also consider risks associated with interest rates and credit when valuing our derivative financial instruments.

The estimated net fair value of our derivative contract assets and liabilities was a net asset of \$1.054 billion and \$912 million at March 31, 2010 and 2009, respectively. The following tables provide a summary of the factors affecting the change in fair value of the derivative contract asset and liability accounts for the three months ended March 31, 2010 and 2009, respectively (in millions):

	Commodity Contracts		
	Asset Management	Trading Activities	Total
Fair value of portfolio of assets and liabilities at January 1, 2010	\$ 701	\$ 1	\$ 702
Gains (losses) recognized in the period, net:			
New contracts and other changes in fair value <sup>1</sup>	333	11	344
Roll off of previous values <sup>2</sup>	(60)	(21)	(81)
Purchases, issuances and settlements <sup>3</sup>	70	19	89
Fair value of portfolio of assets and liabilities at March 31, 2010	\$ 1,044	\$ 10	\$ 1,054

	Commodity Contracts		
	Asset Management	Trading Activities	Total
Fair value of portfolio of assets and liabilities at January 1, 2009	\$ 549	\$ 106	\$ 655
Gains (losses) recognized in the period, net:			
New contracts and other changes in fair value <sup>1</sup>	225	(32)	193
Roll off of previous values <sup>2</sup>	(65)	(19)	(84)
Purchases, issuances and settlements <sup>3</sup>	120	28	148
Fair value of portfolio of assets and liabilities at March 31, 2009	\$ 829	\$ 83	\$ 912

<sup>1</sup> The fair value, as of the end of each quarterly reporting period, of contracts entered into during each quarterly reporting period and the gains or losses attributable to contracts that existed as of the beginning of each quarterly reporting period and were still held at the end of each quarterly reporting period.

<sup>2</sup> The fair value, as of the beginning of each quarterly reporting period, of contracts that settled during each quarterly reporting period.

<sup>3</sup> Denotes cash settlements during each quarterly reporting period of contracts that existed at the beginning of each quarterly reporting period.

The tables above do not include long-term coal agreements that are not required to be recorded at fair value under the accounting guidance for derivative financial instruments. See *Long-Term Coal Agreement Risk* for further discussion later in this section.

We did not elect the fair value option for any financial instruments under the accounting guidance. However, we do transact using derivative financial instruments and they are required to be recorded at fair value under the accounting guidance related to derivative financial instruments in our unaudited condensed consolidated balance sheets.

**Counterparty Credit Risk**

The valuation of our derivative contract assets is affected by the default risk of the counterparties with which we transact. We recognized a reserve, which is reflected as a reduction of our derivative contract assets, related to counterparty credit risk of \$17 million and \$13 million at March 31, 2010 and December 31, 2009, respectively.

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In accordance with the fair value measurements accounting guidance, we calculate the credit reserve through consideration of observable market inputs, when available. Our non-collateralized power hedges entered into by Mirant Mid-Atlantic with our major trading partners, which represent 74% of our net notional position at March 31, 2010, are senior unsecured obligations of Mirant Mid-Atlantic and the counterparties, and do not require either party to post cash collateral for initial margin or for securing exposure as a result of changes in power or natural gas prices. We calculate the credit reserve for our non-collateralized power hedges entered into by Mirant Mid-Atlantic using published spreads on credit default swaps for our counterparties applied to our current exposure and potential loss exposure from the financial commitments in our risk management portfolio. Potential loss exposure is calculated as our current exposure plus a calculated VaR over the remaining life of the contracts. We applied a similar approach to calculate the fair value of our coal contracts that are not included in derivative contract assets and liabilities in the unaudited condensed consolidated balance sheets and which also do not require either party to post cash collateral for initial margin or for securing exposure as a result of changes in coal prices. We do not, however, transact in credit default swaps or any other credit derivative. An increase of 10% in the spread of credit default swaps of our major trading partners for our non-collateralized power hedges entered into by Mirant Mid-Atlantic would result in an increase of \$2 million in our credit reserve as of March 31, 2010. An increase of 10% in the spread of credit default swaps of our coal suppliers would result in an increase of less than \$1 million in our credit reserve for our long-term coal agreements that are not included in derivative contract assets and liabilities in the accompanying unaudited condensed consolidated balance sheets as of March 31, 2010.

We have historically calculated the credit reserve for the remainder of our portfolio considering our current exposure, net of the effect of credit enhancements, and potential loss exposure from the financial commitments in our risk management portfolio, and applied historical default probabilities using current credit ratings of our counterparties. In the fourth quarter of 2009, we changed our methodology to calculate the credit reserve for the remainder of our portfolio to also use published spreads, where available, or proxies based upon published spreads, on credit default swaps for our counterparties applied to our current exposure and potential loss exposure from the financial commitments in our risk management portfolio. The change in credit reserve methodology did not have a material effect on the fair value of our derivative contract assets and liabilities for the remainder of the portfolio because the default risk is generally offset by cash collateral or other credit enhancements. An increase in counterparty credit risk could affect the ability of our counterparties to deliver on their obligations to us. As a result, we may require our counterparties to post additional collateral or provide other credit enhancements. An increase of 10% in the spread of credit default swaps of our trading partners for the remainder of our portfolio would result in an immaterial increase in our credit reserve as of March 31, 2010.

Once we have delivered a physical commodity or agreed to financial settlement terms, we are subject to collection risk. Collection risk is similar to credit risk and collection risk is accounted for when we establish our provision for uncollectible accounts. We manage this risk using the same techniques and processes used in credit risk discussed above.

We also monitor counterparty credit concentration risk on both an individual basis and a group counterparty basis. See Note B to our unaudited condensed consolidated financial statements contained elsewhere in this report for further discussion of our counterparty credit concentration risk.

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**Table of Contents*****Mirant Credit Risk***

In valuing our derivative contract liabilities, we apply a valuation adjustment for our non-performance, which is based on the probability of our default. Historically, we determined this non-performance adjustment value by multiplying our liability exposure, including outstanding balances for realized transactions, unrealized transactions and the effect of credit enhancements, by the one year probability of our default based on our current credit rating. The one year probability of default rate considers the tenor of our portfolio and the correlation of default between counterparties within our industry. In the fourth quarter of 2009, we changed our methodology to incorporate published spreads on our credit default swaps, where available, or proxies based upon published spreads. An increase of 10% in the spread of our credit default swap rate would have an immaterial effect on our unaudited condensed consolidated statement of operations for the three months ended March 31, 2010.

***Broker Quotes***

In determining the fair value of our derivative contract assets and liabilities, we use third-party market pricing where available. We consider active markets to be those in which transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis. Note B to our unaudited condensed consolidated financial statements contained elsewhere in this report explains the fair value hierarchy. Our transactions in Level 1 of the fair value hierarchy primarily consist of natural gas and crude oil futures traded on the NYMEX and swaps cleared against NYMEX prices. For these transactions, we use the unadjusted published settled prices on the valuation date. Our transactions in Level 2 of the fair value hierarchy primarily include non-exchange-traded derivatives such as OTC forwards, swaps and options. We value these transactions using quotes from independent brokers or other widely-accepted valuation methodologies. Transactions are classified in Level 2 if substantially all (greater than 90%) of the fair value can be corroborated using observable market inputs such as transactable broker quotes. In accordance with the exit price objective under the fair value measurements accounting guidance, the fair value of our derivative contract assets and liabilities is determined based on the net underlying position of the recorded derivative contract assets and liabilities using bid prices for our assets and ask prices for liabilities. The quotes that we obtain from brokers are non-binding in nature, but are from brokers that typically transact in the market being quoted and are based on their knowledge of market transactions on the valuation date. We typically obtain multiple broker quotes on the valuation date for each delivery location that extend for the tenor of our underlying contracts. The number of quotes that we can obtain depends on the relative liquidity of the delivery location on the valuation date. If multiple broker quotes are received for a contract, we use an average of the quoted bid or ask prices. If only one broker quote is received for a delivery location and it cannot be validated through other external sources, we will assign the quote to a lower level within the fair value hierarchy. In some instances, we may combine broker quotes for a liquid delivery hub with broker quotes for the price spread between the liquid delivery hub and the delivery location under the contract. We also may apply interpolation techniques to value monthly strips if broker quotes are only available on a seasonal or annual basis. We perform validation procedures on the broker quotes at least on a monthly basis. The validation procedures include reviewing the quotes for accuracy and comparing them to our internal price curves. In certain instances, we may discard a broker quote if it is a clear outlier and multiple other quotes are obtained. At March 31, 2010, we obtained broker quotes for 100% of our delivery locations classified in Level 2 of the fair value hierarchy.

Inactive markets are considered to be those markets with few transactions, noncurrent pricing or prices that vary over time or among market makers. Our transactions in Level 3 of the fair value hierarchy may involve transactions whereby observable market data, such as broker

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quotes, are not available for substantially all of the tenor of the contract or we are only able to obtain indicative broker quotes that cannot be corroborated by observable market data. In such cases, we may apply valuation techniques such as extrapolation to determine fair value. Proprietary models may also be used to determine the fair value of certain of our derivative contract assets and liabilities that may be structured or otherwise tailored. The degree of estimation increases for longer duration contracts, contracts with multiple pricing features, option contracts and off-hub delivery points. Our techniques for fair value estimation include assumptions for market prices, correlation and volatility. At March 31, 2010, our assets and liabilities classified as Level 3 in the fair value hierarchy represented approximately 3% of our total assets and less than 1% of our total liabilities measured at fair value. See Note B to our unaudited condensed consolidated financial statements contained elsewhere in this report for further explanation of the fair value hierarchy.

***Interest Rate Risk***

***Fair Value Measurement***

We are also subject to interest rate risk when determining the fair value of our derivative contract assets and liabilities. The nominal value of our derivative contract assets and liabilities is also discounted to account for time value using a LIBOR forward interest rate curve based on the tenor of our transactions. An increase of 100 basis points in the average LIBOR rate would result in a decrease of \$31 million to our derivative contract assets and a decrease of \$16 million to our derivative contract liabilities at March 31, 2010.

***Debt***

Our debt that is subject to variable interest rates consists of the Mirant North America senior secured term loan and senior secured revolving credit facility. If both were fully drawn, the amount subject to variable interest rates would be approximately \$1.1 billion and a 1% per annum increase in the average market rate would result in an increase in our annual interest expense of approximately \$11 million.

***Long-Term Coal Agreement Risk***

Our coal supply comes primarily from the Central Appalachian and Northern Appalachian coal regions. We enter into contracts of varying tenors to secure appropriate quantities of fuel that meet the varying specifications of our generating facilities. For our coal-fired generating facilities, we purchase most of our coal from a small number of strategic suppliers under contracts with terms of varying lengths, some of which extend to 2013. Most of our coal contracts are not required to be recorded at fair value under the accounting guidance for derivative financial instruments. As such, these contracts are not included in derivative contract assets and liabilities in the accompanying unaudited condensed consolidated balance sheets. As of March 31, 2010, the estimated net fair value of these long-term coal agreements was approximately \$(96) million.

In addition, we have non-performance risk associated with our long-term coal agreements. There is risk that our coal suppliers may not provide the contractual quantities on the dates specified within the agreements or the deliveries may be carried over to future periods. If our coal suppliers do not perform in accordance with the agreements, we may have to procure coal in the market to meet our needs, or power in the market to meet our obligations. In addition, a number of the coal suppliers do not currently have an investment grade credit rating and, accordingly, we may have limited recourse to collect damages in the event of default by a supplier. We seek to mitigate this risk through diversification of coal suppliers and through guarantees. Despite this, there can be no assurance that these efforts will be successful in mitigating credit risk from coal

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suppliers. Non-performance or default risk by our coal suppliers could have a material adverse effect on our future results of operations, financial condition and cash flows. See Note B to our unaudited condensed consolidated financial statements contained elsewhere in this report for further explanation of these agreements and our credit concentration tables.

For a further discussion of market risks, our risk management policy and our use of VaR to measure some of these risks, see Item 7A, *Quantitative and Qualitative Disclosures About Market Risk* in our 2009 Annual Report on Form 10-K.

***Item 4. Controls and Procedures***

**Effectiveness of Disclosure Controls and Procedures**

As required by Exchange Act Rule 13a-15(b), our management, including our Chief Executive Officer and our Chief Financial Officer, conducted an assessment of the effectiveness of the design and operation of our disclosure controls and procedures (as defined by Rules 13a-15(e) and 15d-15(e) under the Exchange Act), as of March 31, 2010. Based upon this assessment, our management concluded that, as of March 31, 2010, the design and operation of these disclosure controls and procedures were effective.

**Changes in Internal Control over Financial Reporting**

There have been no changes in Mirant's internal control over financial reporting that have occurred during the quarter ended March 31, 2010, that have materially affected, or are reasonably likely to materially affect, such internal control over financial reporting.

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**PART II**

***Item 1. Legal Proceedings***

See Note J to our unaudited condensed consolidated financial statements contained elsewhere in this report for discussion of the material legal proceedings to which we are a party.

***Item 1A. Risk Factors***

Part I, Item 1A, *Risk Factors* of our 2009 Annual Report on Form 10-K includes a discussion of our risk factors. The information presented below updates, and should be read in conjunction with, the risk factors and information disclosed in our 2009 Annual Report on Form 10-K. Except as presented below, there have been no material changes in our risk factors since those reported in our 2009 Annual Report on Form 10-K. Further information concerning the proposed merger will be included in a joint proxy statement/prospectus contained in the registration statement on Form S-4 to be filed by RRI Energy with the SEC.

**Risks related to the proposed merger with RRI Energy**

***We may be unable to obtain the approvals required to complete the merger with RRI Energy or, in order to do so, the combined company may be required to comply with material restrictions or conditions.***

On April 11, 2010, we announced the execution of a Merger Agreement with RRI Energy. Before the merger may be completed, both Mirant and RRI Energy will need to obtain stockholder approval in connection with the proposed transaction. In addition, various filings must be made with FERC and various regulatory, antitrust and other authorities in the United States. These governmental authorities may impose conditions on the completion, or require changes to the terms, of the merger, including restrictions or conditions on the business, operations or financial performance of the combined company following completion of the merger. These conditions or changes could have the effect of delaying completion of the merger or imposing additional costs on or limiting the revenues of the combined company following the merger, which could have a material adverse effect on the financial results of the combined company and/or cause either Mirant or RRI Energy to abandon the merger.

In addition, several putative class actions have been brought on behalf of holders of Mirant common stock seeking to enjoin the merger or other alternative relief. If these actions or similar actions that may be brought are successful, the merger could be delayed or prevented. See Note J to our unaudited condensed consolidated financial statements contained elsewhere in the report for further information on pending litigation related to the merger.

If we are unable to complete the merger, we still will incur and will remain liable for significant transaction costs, including legal, accounting, filing, printing and other costs relating to the merger. Also, depending upon the reasons for not completing the merger, including whether we have received or entered into a competing takeover proposal, we may be required to pay RRI Energy a termination fee of either \$37.15 million or \$57.78 million.

***If completed, our merger with RRI Energy may not achieve its intended results.***

We entered into the Merger Agreement with the expectation that the merger would result in various benefits, including, among other things, cost savings and operating efficiencies. Achieving the anticipated benefits of the merger is subject to a number of uncertainties, including whether the businesses of Mirant and RRI Energy are integrated in an efficient and effective manner. Failure to achieve these anticipated benefits could result in increased costs, decreases in the



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amount of expected revenues generated by the combined company and diversion of management's time and energy and could have an adverse effect on the combined company's business, financial results and prospects.

*We will be subject to business uncertainties and contractual restrictions while the merger with RRI Energy is pending that could adversely affect our financial results.*

Uncertainty about the effect of the merger with RRI Energy on employees, customers and suppliers may have an adverse effect on our business. Although we intend to take steps designed to reduce any adverse effects, these uncertainties may impair our ability to attract, retain and motivate key personnel until the merger is completed and for a period of time thereafter, and could cause customers, suppliers and others that deal with us to seek to change existing business relationships.

Employee retention and recruitment may be particularly challenging prior to the completion of the merger, as employees and prospective employees may experience uncertainty about their future roles with the combined company. If, despite our retention and recruiting efforts, key employees depart or fail to accept employment with us because of issues relating to the uncertainty and difficulty of integration or a desire not to remain with the combined company, our financial results could be affected.

The pursuit of the merger and the preparation for the integration of Mirant and RRI Energy may place a significant burden on management and internal resources. The diversion of management attention away from day-to-day business concerns and any difficulties encountered in the transition and integration process could affect our business, results of operations and financial condition.

In addition, we are restricted under the Merger Agreement, without RRI Energy's consent, from making certain acquisitions and taking other specified actions until the merger occurs or the Merger Agreement terminates. These restrictions may prevent us from pursuing otherwise attractive business opportunities and making other changes to our business prior to completion of the merger or termination of the Merger Agreement.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

As of March 31, 2010, we repurchased 178,758 shares of common stock for approximately \$2 million for the settlement of payroll taxes associated with the vesting of restricted stock units. These restricted stock units relate to grants that were made to executives and certain employees and are not related to a publicly announced share repurchase plan. See Note F contained elsewhere in this report for additional information related to stock-based compensation.

The following table sets forth information regarding repurchases of our common stock during the three-month period ended March 31, 2010:

Period	Total number of shares repurchased	Average price paid per share	Total number of shares purchased as part of publicly announced plans	Approximate dollar value of shares that may yet be purchased under the plans
January 1, 2010 - January 31, 2010		\$		\$
February 1, 2010 - February 28, 2010	251	\$ 10.78		\$
March 1, 2010 - March 31, 2010	178,507	\$ 12.46		\$
Total	178,758			

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***Item 5. Other Information***

**Marsh Landing Generating Facility EPC Agreement**

On May 6, 2010, Mirant Marsh Landing entered into an EPC Agreement with Kiewit for the construction of the Marsh Landing generating facility. Under the EPC Agreement, Kiewit is to design and construct the Marsh Landing generating facility on a turnkey basis, including all engineering, procurement, construction, commissioning, training, start-up and testing of the Marsh Landing generating facility. The lump sum cost of the EPC Agreement is \$499 million, plus the reimbursement of California sales and use taxes.

As security for its obligations, Kiewit will provide a corporate guarantee from Kiewit Construction Company of its obligations under the EPC Agreement and a letter of credit in the amount of \$31.8 million, reducing to \$10.6 million upon substantial completion of the Marsh Landing facility. Likewise, Mirant Marsh Landing will provide a corporate guarantee from Mirant Corporation in an amount not to exceed \$43.0 million and a letter of credit in an amount up to \$72.0 million, as security for the termination amount from time to time under the turbine equipment supply contract assumed by Kiewit upon execution of the EPC Agreement. In addition, as further security for successful completion of the work, Mirant Marsh Landing is retaining a portion of the payments made to Kiewit under the EPC Agreement which will be paid to Kiewit in two disbursements, one upon substantial completion of the Marsh Landing generating facility (including successful performance testing and commercial operation) and the other at final completion.

The Marsh Landing generating facility will be subject to various performance guarantees, including net power output, net heat rate, emission levels, sound level, ramp time and starting reliability. The EPC Agreement also contains termination rights, warranties, defect correction obligations, insurance requirements, indemnification provisions and limitations of liability that are typical for an agreement of this type and which encourage Kiewit to timely perform its obligations in accordance with applicable laws and industry-recognized standards and practices.

Subject to the timely receipt of regulatory approvals, including approval of Mirant Marsh Landing's PPA with PG&E by the CPUC and the authority to construct from the California Energy Commission, and the timely issuance of notices to proceed to Kiewit under the EPC Agreement, the Marsh Landing generating facility is scheduled to be substantially completed and available for commercial operation within the timeframe contemplated by the power purchase agreement in mid-2013, subject to certain extension rights typical for construction agreements, including certain force majeure events. The EPC Agreement provides for the payment of liquidated damages by Kiewit if it fails to meet this deadline in order to compensate Mirant Marsh Landing for the costs it would expect to incur as a result of a delay.

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**Item 6. Exhibits**

(a) Exhibits.

<b>Exhibit No.</b>	<b>Exhibit Name</b>
3.1	Amended and Restated Certificate of Incorporation of Registrant (Incorporated herein by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed January 3, 2006)
3.2	Amended and Restated Bylaws of Registrant (Incorporated herein by reference to Exhibit 3.2 to the Registrant's Current Report on Form 8-K filed August 6, 2009)
4.1	Rights Agreement, dated as of March 26, 2009, between Mirant Corporation and Mellon Investor Services LLC (Incorporated herein by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K filed March 27, 2009)
4.2	First Amendment to the Rights Agreement, dated as of February 25, 2010, between Mirant Corporation and Mellon Investor Services LLC. (Incorporated herein by reference to Exhibit 4.26 to the Registrant's Annual Report on Form 10-K filed February 26, 2010)
4.3	Second Amendment to the Rights Agreement, dated as of April 28, 2010, between Mirant Corporation and Mellon Investor Services LLC. (Incorporated herein by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K filed April 28, 2010)
4.4	The Company agrees to furnish to the Securities and Exchange Commission, upon request, a copy of any instrument defining the rights of holders of long-term debt of the Company and all of its consolidated subsidiaries for which financial statements are required to be filed with the Securities and Exchange Commission.
31.1*	Certification of the Chief Executive Officer Pursuant to 15 U.S.C. Section 7241, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (Rule 13a-14(a))
31.2*	Certification of the Chief Financial Officer Pursuant to 15 U.S.C. Section 7241, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (Rule 13a-14(a))
32.1*	Certification of the Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Rule 13a-14(b))
32.2*	Certification of the Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Rule 13a-14(b))
101*	The following unaudited financial statements from the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2010, filed on May 7, 2010, formatted in XBRL (Extensible Business Reporting Language): (i) the Condensed Consolidated Statements of Operations, (ii) the Condensed Consolidated Balance Sheets, (iii) the Condensed Consolidated Statements of Stockholders' Equity and Comprehensive Income, (iv) the Condensed Consolidated Statements of Cash Flows, and (v) Notes to Condensed Consolidated Financial Statements, tagged as blocks of text.

\* Asterisk indicates exhibits filed herewith.

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

MIRANT CORPORATION

Date: May 7, 2010

By: /s/ ANGELA M. NAGY  
Angela M. Nagy  
*Vice President and Controller*  
*(Duly Authorized Officer and*  
*Principal Accounting Officer)*