MIRANT CORP
Form 10-Q
June 04, 2004

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended March 31, 2004

or

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

For the Transition Period from to

Mirant Corporation

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of Incorporation or Organization)	**001-16107** (Commission File Number)	**58-2056305** (I.R.S. Employer Identification No.)
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)		**www.mirant.com** (Web Page)

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

Indicate by check mark whether the registrant is an accelerated filer (as defined by Rule 12b-2 of the Act). ýYes o No

The number of shares outstanding of the Registrant's Common Stock, par value $0.01 per share, at May 27, 2004 was 405,468,084.

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DEFINITIONS

TERM	MEANING
Chapter 11	Chapter 11 of the Bankruptcy Code
Bankruptcy Code	United States Bankruptcy Code
IRS	Internal Revenue Service
MMBtu	Million British thermal unit
MW	Megawatts
MWh	Megawatt-hour
Mirant Americas Generation	Mirant Americas Generation, LLC
Mirant California	Mirant California, LLC
Mirant Mid-Atlantic	Mirant Mid-Atlantic, LLC
Mirant New England	Mirant New England, Inc.
Mirant New York	Mirant New York, Inc. and Mirant New York Investments, Inc., collectively
Mirant Peaker	Mirant Peaker, LLC
Mirant Potomac River	Mirant Potomac River, LLC
Mirant Zeeland	Mirant Zeeland, LLC
West Georgia	West Georgia Generating Company, LLC

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

The information presented in this Form 10-Q includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 in addition to historical information. These statements involve known and unknown risks and relate to future events, our future financial performance or our projected business results. In some cases, you can identify forward-looking statements by terminology such as "may," "will," "should," "expects," "plans," "anticipates," "believes," "estimates," "predicts," "targets," "potential" or "continue" or the negative of these terms or other comparable terminology.

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

General Factors

legislative and regulatory initiatives regarding deregulation, regulation or restructuring of the electric utility industry; changes in state, federal and other regulations (including rate and other regulations); changes in, or application of, environmental and other laws and regulations to which we and our subsidiaries and affiliates are subject;

the failure of our assets to perform as expected;

our pursuit of potential business strategies, including the disposition or utilization of assets, suspension of construction or internal restructuring;

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

weather and other natural phenomena;

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

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

- the disposition of the pending litigation described in this Form 10-Q as well as the Company's Form 10-K for the year ended December 31, 2003.

Bankruptcy-Related Factors

- the actions and decisions of creditors of Mirant and of other third parties with interests in the voluntary petitions for reorganization filed on July 14, 2003, July 15, 2003, August 18, 2003, October 3, 2003 and November 18, 2003, by Mirant Corporation and substantially all of its wholly-owned and certain non-wholly-owned U.S. subsidiaries under Chapter 11 of the Bankruptcy Code;

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

- the instructions, orders and decisions of the bankruptcy court and other effects of legal and administrative proceedings, settlements, investigations and claims;

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

- the ability of Mirant to successfully reject unfavorable contracts;

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

- the duration of Chapter 11 proceedings.

The ultimate results of the forward looking statements and the terms of any reorganization plan ultimately confirmed can affect the value of our various pre-petition liabilities, common stock and/or other securities. No assurance can be given as to what values, if any, will be ascribed in the bankruptcy proceedings to each of these constituencies. A plan of reorganization could result in holders of the liabilities and/or securities of the Company, Mirant Americas Generation and Mirant Mid-Atlantic receiving no value for their interests. Because of such possibilities, the value of these liabilities and/or securities is highly speculative. Accordingly, we urge that caution be exercised with respect to existing and future investments in any of these liabilities and/or securities.

The Company expressly disclaims any duty to update any information.

Factors that Could Affect Future Performance

In addition to the discussion of certain risks in Management's Discussion and Analysis of Financial Condition and Results of Operations and the Notes to Mirant's consolidated financial statements, other factors that could affect the Company's future performance (business, financial condition or results of operations and cash flows) are set forth in the Company's 2003 Annual Report on Form 10-K.

MIRANT CORPORATION AND SUBSIDIARIES

(Debtor-in-Possession)

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

	Three Months Ended March 31, 2004	Three Months Ended March 31, 2003
	(in millions, except per share data)	
Operating Revenues:		
Generation	**$ 1,029**	$ 1,323
Integrated utilities and distribution	**137**	129
Net trading revenue	**18**	46
Total operating revenues	**1,184**	1,498
Cost of fuel, electricity and other products	**733**	978
Gross Margin	**451**	520
Operating Expenses:		
Operations and maintenance	**247**	249
Depreciation and amortization	**80**	87
Other impairment losses and restructuring charges	**2**	12
Gain on sales of assets, net	**(16)**	(1)
Total operating expenses	**313**	347
Operating Income	**138**	173
Other (Expense) Income, net:		
Interest expense	**(33)**	(143)
Equity in income of affiliates	**6**	7
Interest income	**3**	9
Other, net	**(3)**	5
Total other expense, net	**(27)**	(122)
Income From Continuing Operations Before Reorganization Items, Income Taxes and Minority Interest	**111**	51
Reorganization items, net	**57**	
Provision for income taxes	**19**	21
Minority interest	**5**	15
Income From Continuing Operations	**30**	15
Loss from Discontinued Operations, net of taxes of $1 in 2003		(15)

	Three Months Ended March 31,			
Income Before Cumulative Effect of Changes in Accounting Principles		**30**		
Cumulative Effect of Changes in Accounting Principles, net of taxes of $1 in 2003				(28)
Net Income (Loss)	**$**	**30**	$	(28)
Earnings (Loss) Per Share:				
Basic and Diluted:				
From continuing operations	$	0.07	$	0.04
From discontinued operations				(0.04)
From cumulative effect of changes in accounting principles				(0.07)
Net income (loss)	**$**	**0.07**	$	(0.07)

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

MIRANT CORPORATION AND SUBSIDIARIES
(Debtor-in-Possession)

CONDENSED CONSOLIDATED BALANCE SHEETS

	At March 31, 2004	At December 31, 2003
	(Unaudited)	
	(in millions)	
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 1,574	$ 1,627
Funds on deposit	133	112
Receivables, net	1,219	1,319
Price risk management assets	131	104
Inventories	258	288
Other	352	350
Total current assets	3,667	3,800
Property, Plant and Equipment, net	6,661	6,767
Noncurrent Assets:		
Goodwill	587	587
Other intangible assets, net	289	293
Investments	284	267
Price risk management assets	125	135
Other	470	282
Total noncurrent assets	1,755	1,564
Total assets	$ 12,083	$ 12,131
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current Liabilities:		
Short-term debt	$ 29	$ 28
Current portion of long-term debt	286	256
Accounts payable and accrued liabilities	692	698
Price risk management liabilities	201	151
Transition power agreements and other obligations	244	353
Other	232	215
Total current liabilities	1,684	1,701
Noncurrent Liabilities:		
Long-term debt	1,197	1,282
Price risk management liabilities	107	96
Transition power agreements and other obligations	18	54

		At March 31, 2004	At December 31, 2003
Other		**728**	568
Total noncurrent liabilities		**2,050**	2,000
Liabilities Subject to Compromise		**8,979**	9,084
Minority Interest in Subsidiary Companies		**153**	169
Commitments and Contingencies			
Stockholders' Deficit:			
Common stock, $.01 par value, per share		**4**	4
Authorized	2,000,000,000 shares		
Issued	March 31, 2004: 405,568,084 shares		
	December 31, 2003: 405,568,084 shares		
Treasury	March 31, 2004: 100,000 shares		
	December 31, 2003: 100,000 shares		
Additional paid-in capital		**4,918**	4,918
Accumulated deficit		**(5,649)**	(5,679)
Accumulated other comprehensive loss		**(54)**	(64)
Treasury stock, at cost		**(2)**	(2)
Total stockholders' deficit		**(783)**	(823)
Total liabilities and stockholders' deficit		**$ 12,083**	$ 12,131

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

MIRANT CORPORATION AND SUBSIDIARIES
(Debtor-in-Possession)

CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' DEFICIT (UNAUDITED)

	Common Stock	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Treasury Stock
			(in millions)		
Balance, December 31, 2003	$ 4	$ 4,918	$ (5,679)	$ (64)	$ (2)
Net income			30		
Other comprehensive income				10	
Balance, March 31, 2004	**$ 4**	**$ 4,918**	**$ (5,649)**	**$ (54)**	**$ (2)**

MIRANT CORPORATION AND SUBSIDIARIES
(Debtor-in-Possession)

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (UNAUDITED)

	Three Months Ended March 31, 2004	Three Months Ended March 31, 2003
	(in millions)	
Net Income (Loss)	$ 30	$ (28)
Other comprehensive income (loss), net of tax, beginning of period		
Net change in fair value of derivative hedging instruments net of tax of $1 in 2003		(1)
Reclassification of derivative net gains to earnings net of tax of $1 in 2003		6
Cumulative translation adjustment	5	(14)
Unrealized gains on TIERS investments	5	1
Other		(4)
Other comprehensive income (loss), net of tax	10	(12)
Total Comprehensive Income (Loss)	**$ 40**	**$ (40)**

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

MIRANT CORPORATION AND SUBSIDIARIES
(Debtor-in-Possession)

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	Three Months Ended March 31, 2004	Three Months Ended March 31, 2003
	(in millions)	
Cash Flows from Operating Activities:		
Net income (loss)	$ **30**	$ (28)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Equity in income of affiliates	**(6)**	(7)
Non-cash charges for reorganization items	**42**	
Cumulative effect of changes in accounting principles		28
Dividends received from equity investments	**5**	5
Depreciation and amortization	**82**	92
Amortization of obligations under energy delivery and purchase commitments	**(116)**	(132)
Restructuring charges		(2)
Energy marketing and risk management activities, net	**(34)**	(27)
Deferred income taxes	**14**	60
Gain on sales of assets	**(16)**	21
Minority interest	**6**	9
Other, net	**15**	26
Changes in operating assets and liabilities, excluding effects from acquisitions:		
Receivables, net	**17**	(932)
Other current assets	**9**	(151)
Other assets	**26**	18
Accounts payable and accrued liabilities	**(109)**	924
Taxes accrued	**14**	(110)
Other current liabilities	**(9)**	(32)
Other liabilities	**(15)**	
Total adjustments	**(75)**	(210)
Net cash used in operating activities	**(45)**	(238)
Cash Flows from Investing Activities:		
Capital expenditures	**(27)**	(273)
Cash paid for acquisitions	**(21)**	(31)
Issuance of notes receivable		(27)
Repayments on notes receivable		54
Proceeds from the sales of assets		270
Cash paid related to disposition	**(12)**	
Net cash used in investing activities	**(60)**	(7)
Cash Flows from Financing Activities:		
Proceeds from issuance of debt	**102**	35
Repayment of long-term debt	**(86)**	(190)
Capital contributions from minority interest owners		1

	Three Months Ended March 31,	
Payment of dividends to minority interests	**(1)**	(3)
Issuance of short-term debt, net		(4)
Purchase of TIERS Certificates		(51)
Change in debt service reserve fund	**37**	39
Net cash provided by (used in) financing activities	**52**	(173)
Effect of Exchange Rate Changes on Cash and Cash Equivalents		6
Net Decrease in Cash and Cash Equivalents	**(53)**	(412)
Cash and Cash Equivalents, beginning of period	**1,627**	1,706
Cash and Cash Equivalents, end of period	**$ 1,574**	$ 1,294
Supplemental Cash Flow Disclosures:		
Cash paid for interest, net of amounts capitalized	**$ 35**	$ 130
Cash paid (refunds received) for income taxes	**$ 7**	$ (2)
Cash paid for reorganization items	**$ 25**	$
Business Acquisitions:		
Fair value of assets acquired	**$ 21**	$ 31
Less cash paid	**21**	31
Liabilities assumed	**$**	$

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

MIRANT CORPORATION AND SUBSIDIARIES
(Debtor-in-Possession)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2004 and 2003

A. Description of Business and Chapter 11 Proceedings

Overview

Mirant Corporation (formerly Southern Energy, Inc.) and its subsidiaries (collectively, "Mirant" or the "Company") is an international energy company incorporated in Delaware on April 20, 1993. Prior to April 2, 2001, Mirant was a subsidiary of Southern Company ("Southern"). The Company's revenues are primarily generated through the production of electricity in the U.S., the Philippines and the Caribbean. As of March 31, 2004, Mirant owned or leased more than 17,000 MW of electric generating capacity.

Mirant manages its business through two principal operating segments. The Company's North America segment consists of power generation and trading and marketing operations. In North America, the Company trades and markets energy commodities to manage the financial performance of its power generation business and to enter into other energy trading positions, primarily in regions where it owns generating facilities or other physical assets. The International segment includes power generation businesses in the Philippines, Curacao and Trinidad and Tobago, and integrated utilities in the Bahamas and Jamaica. In the Philippines, over 80% of Mirant's generation output is sold under long-term contracts. The Company's operations in the Caribbean include fully integrated electric utilities, which generate, distribute and sell power to residential, commercial and industrial customers.

Proceedings under Chapter 11 of the Bankruptcy Code

On July 14, 2003 and July 15, 2003 ("Petition Date"), Mirant and 74 of its wholly-owned subsidiaries in the United States (collectively, the "Original Debtors") filed voluntary petitions for relief under Chapter 11 of the Bankruptcy Code in the U.S. Bankruptcy Court for the Northern District of Texas, Fort Worth Division ("Bankruptcy Court"). On August 18, 2003, October 3, 2003 and November 18, 2003, four additional wholly-owned subsidiaries and four affiliates of Mirant commenced Chapter 11 cases under the Bankruptcy Code (together with the Original Debtors, the "Mirant Debtors"). The Chapter 11 cases of the Mirant Debtors are being jointly administered for procedural purposes only under case caption In re Mirant Corporation *et al*., Case No. 03-46590 (DML).

Additionally, on the Petition Date, certain of Mirant's Canadian subsidiaries, Mirant Canada Energy Marketing, Ltd. and Mirant Canada Marketing Investments, Inc., filed an application for creditor protection under the Companies Creditors' Arrangement Act in Canada ("CCAA"), which, like Chapter 11, allows for reorganization under the protection of the court system. These Canadian subsidiaries emerged from creditor protection on May 21, 2004. The accounting for their emergence will be reflected in the financial results for the three months ended June 30, 2004 and is not expected to have a material impact on the Company's operating results.

Mirant's businesses in the Philippines and the Caribbean were not included in the Chapter 11 filings.

The Mirant Debtors are continuing to operate their businesses as debtors-in-possession under the jurisdiction of the Bankruptcy Court and in accordance with the applicable provisions of the Bankruptcy Code, the Federal Rules of Bankruptcy Procedure, applicable court orders, as well as other applicable laws and rules. In general, as debtors-in-possession, each of the Mirant Debtors is authorized under the Bankruptcy Code to continue to operate as an ongoing business, but may not engage in transactions outside the ordinary course of business without the prior approval of the Bankruptcy Court.

The Office of the United States Trustee has established a committee of unsecured creditors for Mirant Corporation and a committee of unsecured creditors for Mirant Americas Generation (collectively, the "Creditor Committees"). The Office of the United States Trustee has also established a committee of equity securities holders of Mirant Corporation (the "Equity Committee," and collectively with the Creditor Committees, the "Statutory Committees").

Subject to certain exceptions in the Bankruptcy Code, the Chapter 11 filings automatically stayed the initiation or continuation of most actions against the Mirant Debtors, including most actions to collect pre-petition indebtedness or to exercise control over the property of the bankruptcy estates. As a result, absent an order of the Bankruptcy Court, creditors are precluded from collecting pre-petition debts and substantially all pre-petition liabilities are subject to compromise under a plan or plans of reorganization to be developed by the Mirant Debtors later in the bankruptcy proceedings. One exception to this stay of litigation is actions or proceedings by a governmental agency to enforce its police or regulatory power.

Under the Bankruptcy Code, the Mirant Debtors also have the right to assume, assign, or reject certain executory contracts and unexpired leases, subject to the approval of the Bankruptcy Court and certain other conditions. The Mirant Debtors continue to evaluate their executory contracts in order to determine which contracts will be assumed, assigned, or rejected. For those contracts with an effective rejection date or amendment during the three months ended March 31, 2004, the Company recorded estimated damage claims as a component of reorganization expense of $42 million in its unaudited condensed consolidated statement of operations and a liability subject to compromise on its unaudited condensed consolidated balance sheet.

At this time, it is not possible to accurately predict the effect of the Chapter 11 reorganization process on the business of the Mirant Debtors, or if and when, some or all of the Mirant Debtors may emerge from Chapter 11. The prospects for the future results depend on the timely and successful development, confirmation and implementation of a plan of reorganization. There can be no assurance that a successful plan or plans of reorganization will be proposed by the Mirant Debtors, supported by Mirant Debtors' creditors or confirmed by the Bankruptcy Court, or that any such plan or plans will be consummated. The rights and claims of various creditors and security holders will be determined by the applicable plans as well. Under the priority scheme established by the Bankruptcy Code, certain post-petition and pre-petition liabilities need to be satisfied before equity security holders are entitled to any distributions. The ultimate recovery to creditors and equity security holders, if any, will not be determined until confirmation of a plan or plans of reorganization. No assurance can be given as to what values, if any, will be ascribed in the bankruptcy proceedings to the interests of each of these constituencies, and it is possible that the equity interests in Mirant and the other Mirant Debtors, or other securities will be restructured in a manner that will reduce substantially or eliminate any remaining value. Whether or not a plan or plans of reorganization are approved, it is possible that the assets of any one or more of the Mirant Debtors may be liquidated.

B. Accounting and Reporting Policies