EDISON MISSION ENERGY
Form 10-K/A
August 18, 2003

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K/A
AMENDMENT NO. 2

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

For the fiscal year ended December 31, 2002

Commission File Number 000-24890

Edison Mission Energy

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**95-4031807** (I.R.S. Employer Identification No.)
18101 Von Karman Avenue **Irvine, California** (Address of principal executive offices)	**92612** (Zip Code)

(949) 752-5588
(Registrant's telephone number, including area code)

Securities registered pursuant to Secion 12(b) of the Act:

9-7/8% Cumulative Monthly Income Preferred Securities, Series A* (Title of Class)	**New York Stock Exchange** (Name of each exchange on which registered)
8-1/2% Cumulative Monthly Income Preferred Securities, Series B* (Title of Class)	**New York Stock Exchange** (Name of each exchange on which registered)

Securities registered pursuant to Section 12(g) of the Act:
Common Stock, par value $0.01 per share
(Title of Class)

* Issued by Mission Capital, L.P., a limited partnership in which Edison Mission Energy is the sole general partner. The payments of distributions on the preferred securities and certain payments on liquidation or redemption are guaranteed by Edison Mission Energy.

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. YES ý NO o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).
YES o NO ý

Aggregate market value of the registrant's Common Stock held by non-affiliates of the registrant as of June 28, 2002: $0. Number of shares outstanding of the registrant's Common Stock as of March 27, 2003: 100 shares (all shares held by an affiliate of the registrant).

EXPLANATORY NOTE

This Amendment No. 2 on Form 10-K/A for the fiscal year ended December 31, 2002 is being filed to include revised financial statements of Four Star Oil & Gas Company and ISAB Energy S.r.l., equity affiliates of Edison Mission Energy, included in Part IV, Item 15 of Edison Mission Energy's annual report on Form 10-K for the fiscal year ended December 31, 2002 filed on March 28, 2003 and Edison Mission Energy's annual report on Form 10-K/A Amendment No. 1 filed on June 30, 2003, respectively.

The financial statements with respect to Four Star Oil & Gas Company are being filed solely for the purpose of revising the "Future production and development costs," which are included in the standardized measure information in Note 11 to the financial statements.

The financial statements with respect to ISAB Energy S.r.l. are being filed for the purpose of revising the reconciliation of net income (loss) and net equity (deficit) for each of the three years ended December 31, 2002 included in Note 9 "Reconciliation to Generally Accepted Accounting Principles in the United States" to the financial statements, which provides for a reconciliation of net income (loss) and net equity (deficit) from Italian generally accepted accounting principles to United States generally accepted accounting principles. The revision in the reconciliation is the result of a clerical error in the computation of the net deferred tax asset at the end of each year for the three years ended December 31, 2002.

This Amendment No 2 does not update any other disclosures to reflect developments since the original date of filing.

The aforementioned revisions to the financial statements of Four Star Oil & Gas Company and ISAB Energy S.r.l. had no impact on Edison Mission Energy's consolidated financial statements included in Part II, Item 8 of Edison Mission Energy's annual report on Form 10-K for the fiscal year ended December 31, 2002 filed with the Securities and Exchange Commission on March 28, 2003. Unaffected items, including Edison Mission Energy's consolidated financial statements, have not been repeated in this Amendment No 2.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a)

(2) List of Financial Statement Schedules

The following items are filed as a part of this report pursuant to Item 14(d) of Form 10-K:

Page

(d)

Financial Statement Schedules

The financial statements referred to in (a)(2) above represent the entities that are Investments in Unconsolidated Affiliates, which were 50% or less owned by Edison Mission Energy and met the requirements of Rule 3-09 of Regulation S-X. The statements with respect to ISAB Energy S.r.l. are prepared in accordance with generally accepted accounting principles in Italy which differ from generally accepted accounting principles in the United States. See Note 9 to the financial statements on page 64.

REPORT OF INDEPENDENT ACCOUNTANTS

To the Stockholders of
Four Star Oil & Gas Company

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, stockholders' equity and cash flows present fairly, in all material respects, the financial position of Four Star Oil & Gas Company (the Company) and its subsidiary at December 31, 2002 and 2001 and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion. The financial statements of the Company as of December 31, 2000 and for the year then ended were audited by other independent accountants who have ceased operations. Those independent accountants expressed an unqualified opinion on those statements in their report dated March 2, 2001.

As described in Note 3 to the financial statements, the Company has significant transactions with affiliated companies. Because of these relationships, it is possible that the terms of these transactions are not the same as those that would result from transactions among wholly-unrelated parties.

/S/ PRICEWATERHOUSECOOPERS LLP

Houston, Texas
March 7, 2003

FOUR STAR OIL & GAS COMPANY

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2002 AND 2001

	2002	2001

	2002	2001
	(in millions, except share and per share amounts)	
Assets		
Current assets:		
Cash and cash equivalents	$ 21	$ 23
Accounts receivable:		
Trade	3	6
Related parties and affiliates	46	35
Other receivables	7	22
Other current assets	4	2
Total current assets	81	88
Properties, plant and equipment (successful-efforts method)	955	934
Less accumulated depreciation, depletion and amortization	(673)	(629)
Net properties, plant and equipment	282	305
Deferred charges and other assets	1	4
Total	$ 364	$ 397
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 7	$ 5
Related party and affiliate payables	54	31
Taxes payable	10	8
Total current liabilities	71	44
Note payable to affiliate	169	239
Deferred income taxes	54	57
Commitments and contingencies (Note 10)		
Stockholders' equity:		
Preferred stock, $1.00 par value. 400 Class A shares authorized, 96 shares and 230 shares issued and outstanding at December 31, 2002 and 2001, respectively; 400 Class B authorized, 300 shares issued and outstanding at December 31, 2002 and 2001		
Common stock, $1.00 par value, 1,000 Class A shares authorized, issued and outstanding; 2,000 Class B shares authorized, 373 shares and 239 shares issued and outstanding at December 31, 2002 and 2001, respectively; 1,000 Class C shares authorized, 25 shares issued and outstanding at December 31, 2002 and 2001		
Additional paid-in capital	29	57
Retained earnings	41	
Total stockholders' equity	70	57
Total	$ 364	$ 397

	2002	2001

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

FOUR STAR OIL & GAS COMPANY
CONSOLIDATED STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2002, 2001 AND 2000

	2002	2001	2000
		(in millions)	
Revenues:			
Crude oil	$ 45	$ 46	$ 63
Natural gas	139	219	252
Natural gas liquids	24	38	7
Other	27	14	18
	235	317	340
Costs and expenses:			
Operating expenses	47	38	35
General and administrative expenses	14	13	10
Depreciation, depletion and amortization	44	38	42
Impairment of oil and gas properties	7	7	25
Taxes other than income taxes	19	25	28
	131	121	140
Operating income	104	196	200
Other income (expense):			
Interest expense	(7)	(13)	(18)
Interest income and other	6	1	1
Income before income taxes	103	184	183
Provision (benefit) for income taxes:			
Federal:			
Current	36	45	46
Deferred	(4)	3	6
State and local:			
Current	(1)	6	4
	31	54	56
Net income	$ 72	$ 130	$ 127

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

FOUR STAR OIL & GAS COMPANY
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2002, 2001 AND 2000

	Common shares			Preferred shares						
	Class A	**Class B**	**Class C**	**Class A**	**Class B**	**Common stock**	**Preferred stock**	**Paid-in capital**	**Retained earnings**	**Total stockholders' equity**
						(in millions, except share amounts)				
Balance, December 31, 1999	1,000	159	25	310	300	$	$	$ 90	$ 25	$ 115
Dividends paid									(144)	(144)
Stock conversion		80		(80)						
Net income									127	127
Balance, December 31, 2000	1,000	239	25	230	300			90	8	98
Dividends paid								(33)	(138)	(171)
Stock conversion		134		(134)						
Net income									130	130
Balance, December 31, 2001	1,000	373	25	96	300			57		57
Dividends paid								(28)	(31)	(59)
Net income									72	72
Balance, December 31, 2002	1,000	373	25	96	300	$	$	$ 29	$ 41	$ 70

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

FOUR STAR OIL & GAS COMPANY
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2002, 2001 AND 2000

	2002	**2001**	**2000**
		(in millions)	
Cash flows from operating activities:			
Net income	$ 72	$ 130	$ 127
Reconciliation of net income to net cash provided by operating activities:			
Reversal of provision for plug and abandonment		(2)	
Depreciation, depletion and amortization	44	38	42
Impairment of oil and gas properties	7	7	25
Deferred income taxes and other	(3)	3	4
Changes in assets and liabilities:			
Accounts receivable trade, net	3	8	(9)
Accounts receivable related parties and affiliates	(11)	28	(46)
Other receivables	15	(15)	
Other current assets	(2)		

	2002	2001	2000
Deferred charges and other assets	3		
Accounts payable and accrued liabilities	2	(10)	3
Related party and affiliate payables	23	14	10
Taxes payable	2		7
Net cash provided by operating activities	155	201	163
Cash flows from investing activities:			
Capital expenditures	(28)	(25)	(21)
Proceeds from property sales			6
Net cash used in investing activities	(28)	(25)	(15)
Cash flows from financing activities:			
Dividends paid	(59)	(171)	(144)
Loan principal repayment to affiliate	(70)		
Net cash used in financing activities	(129)	(171)	(144)
Increase (decrease) in cash and cash equivalents	(2)	5	4
Cash and cash equivalents, beginning of year	23	18	14
Cash and cash equivalents, end of year	$ 21	$ 23	$ 18
Supplemental disclosure of cash flow information:			
Cash flows from operating activities include the following cash payments:			
Income taxes	$ 15	$ 62	$ 41
Interest	7	13	18

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

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FOUR STAR OIL & GAS COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2002 AND 2001

1. Basis of Presentation and Description of the Company

Four Star Oil and Gas Company is a subsidiary of ChevronTexaco that explores for and produces crude oil, natural gas and natural gas liquids. The use in this report of the term "Texaco" refers solely to Texaco Inc., a Delaware corporation, and its consolidated subsidiaries or to subsidiaries and affiliates either individually or collectively.

In 1984, Texaco acquired all of the outstanding common stock of Four Star Oil & Gas Company (Four Star or the Company) for $10.2 billion. At the time of acquisition, Four Star was an integrated petroleum and natural gas company involved in the exploration for and production, transportation, refining and marketing of crude oil and petroleum products. The acquisition was accounted for as a purchase, and the Four Star assets and liabilities were recorded at fair market value. In 1989, Texaco sold 20 percent of its interest in Four Star to Edison Mission Energy (Mission Energy). Four Star was an 80 percent owned subsidiary of Texaco from December 31, 1989 through December 31, 1991. As a result of a series of stock transactions occurring between January 1, 1992 and December 31, 2002, Texaco's ownership interest in Four Star was reduced to 71%.

In October 2001, the merger between Texaco and Chevron Corporation was approved and ChevronTexaco Corporation (ChevronTexaco) became the ultimate parent of Texaco Inc. Texaco Inc.'s investment in Four Star was transferred to ChevronTexaco Global Energy Inc. as part of a restructuring agreement dated November 1, 2001. Texaco Exploration and Production Inc. (TEPI), a wholly-owned subsidiary of Texaco Inc., was absorbed into Chevron U.S.A. (CUSA), a wholly-owned subsidiary of ChevronTexaco, as part of a legal restructuring in May 2002. CUSA operates and manages the majority of Four Star's operations under the terms of a service agreement.

As of December 31, 2002 and 2001, the ownership interests in Four Star were as follows:

	2002	**2001**
Chevron U.S.A. (CUSA)	36.6%	36.6%
ChevronTexaco Global Energy Inc. (CTGEI)	24.3%	24.3%
Edison Mission Energy (Mission Energy)	19.0%	19.0%
Four Star Oil & Gas Holdings Company (owned jointly by CTGEI and Mission Energy)	20.1%	20.1%
	100.0%	100.0%

2. Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of Four Star Oil & Gas Company (Four Star or the Company) and Mission Energy Methane, a wholly-owned subsidiary of Four Star. All significant intercompany accounts and transactions have been eliminated in consolidation.

Revenue Recognition

Revenues associated with sales of crude oil, natural gas and other sources are recorded when title passes to the customer, net of royalties, discounts and allowances, as applicable. Revenues from natural gas production from properties in which ChevronTexaco has an interest with other producers are generally recognized on the basis of delivery (sales method).

Cash and Cash Equivalents

Highly liquid investments with a maturity of three months or less when purchased are generally considered to be cash equivalents.

Properties, Plant and Equipment and Depreciation, Depletion and Amortization

The Company follows the successful efforts method of accounting for its oil and gas exploration and production operations.

Lease acquisition costs related to properties held for oil and gas production are capitalized when incurred. Unproved properties with acquisition costs which are individually significant are assessed on a property-by-property basis, and a loss is recognized, by provision of a valuation allowance, when the assessment indicates an impairment in value. Unproved properties with acquisition costs which are not individually significant are generally aggregated, and the portion of such costs estimated to be nonproductive, based on historical experience, is amortized on an average holding period basis.

Exploratory costs, excluding the costs of exploratory wells, are charged to expense as incurred. Costs of drilling exploratory wells, including stratigraphic test wells, are capitalized pending determination of whether the wells have found proved reserves which justify commercial development. If such reserves are not found, the drilling costs are charged to exploratory expenses. Intangible drilling costs applicable to productive wells and to development dry holes, as well as tangible equipment costs related to the development of oil and gas reserves, are capitalized.

The costs of productive leaseholds and other capitalized costs related to production activities, including tangible and intangible costs, are amortized principally by field on the unit-of-production basis by applying the ratio of produced oil and gas to estimated recoverable total proved oil and gas reserves. Estimated future restoration and abandonment costs are taken into account in determining amortization and depreciation rates.

Depreciation of properties, plant and equipment related to operations other than production is provided using the straight-line method, with depreciation rates based upon estimated useful lives applied to the cost of each class of property. The useful lives of such assets range from 3 to 20 years.

Normal maintenance and repairs of properties, plant and equipment are charged to expense as incurred. Renewals, betterments and major repairs that materially extend the life of properties are capitalized, and the assets replaced, if any, are retired.

When fixed capital assets representing complete units of property are disposed of, any profit or loss after accumulated depreciation and amortization is credited or charged to income.

Long-lived assets, including proved oil and gas properties, are assessed for possible impairment by comparing their carrying values with the undiscounted future net before-tax cash flows. Events which can trigger assessments for possible impairments include write-downs of proved reserves based on field performance, significant decreases in the market value of an asset, and significant change in an asset. Impaired assets are written down to their estimated fair values, generally their discounted future net before-tax cash flows. As a result, the Company recorded impairment charges of $7 million, $7 million and $25 million in 2002, 2001 and 2000, respectively, due to downward reserve revisions.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The most significant estimates pertain to proved oil, NGL and gas reserve volumes and plug and abandonment costs as well as estimates relating to the calculation of impairments under SFAS No. 144. Actual results could differ from those estimates.

Reclassifications

Certain previously reported amounts have been reclassified to conform to current-year presentation. Such reclassification had no effect on reported net income or shareholders' equity.

Income Taxes

Deferred taxes result from temporary differences in the recognition of revenues and expenses for tax and financial reporting purposes and are calculated based upon cumulative book and tax differences in the balance sheet.

Derivatives

The adoption of SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," did not have a material effect on the Company's financial position as the Company has no derivatives as of December 31, 2002 and 2001, except for its physical sale contracts, which qualify as normal sales. The Company adopted SFAS 133 as of January 1, 2001.

New Accounting Pronouncements

In June 2001, the FASB issued Statement No. 143, "Accounting for Asset Retirement obligations" (SFAS 143). This new standard was adopted effective January 1, 2003, and applies to legal obligations associated with the retirement of tangible long-lived assets. Adoption of SFAS 143 primarily affects the Company's accounting for oil and gas producing assets. SFAS 143 differs in several significant respects from current accounting under SFAS 19, "Financial Accounting and Reporting by Oil and Gas Producing Companies." Adoption of SFAS 143 affects future accounting and reporting of the assets, liabilities and expenses related to these obligations. In the first quarter 2003, the Company will report an after-tax loss of approximately $9.2 million for the cumulative effect of this change in accounting principle. The effect of adoption will also include an increase of total assets and total liabilities of $16.8 million and $26 million, respectively. Besides the cumulative-effect adjustment, the effect of the new accounting standard on net income in 2003 is not expected to be materially different from what the result would have been under SFAS 19 accounting.

In April 2002, the FASB issued SFAS No. 145, *Recession of FASB Statement No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections*. Application of the statement will be required in 2003. The Company does not expect adoption of SFAS No. 145 to have a significant impact on its financial statements.

In July 2002, the FASB issued SFAS No. 146, *Accounting for Exit or Disposal Activities*. SFAS No. 146 address the recognition, measurement and reporting costs associated with exit and disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. SFAS No. 146 is to be applied prospectively to exit or disposal activities initiated after December 31, 2002.

In December 2002, the FASB issued Interpretation No. 45 (FIN No. 45), *Guarantor's Accounting and Disclosure Requirements*. FIN No. 45 expands required disclosures for certain types of guarantees and recognition of a liability at fair value of such guarantees at the time of issuance. The disclosure requirements are effective for the Company's December 31, 2002 financial statements, while the fair value accounting requirements apply prospectively to guarantees issued or modified after December 31, 2002. The Company does not expect FIN No. 45 to have a significant effect on its financial statements.

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities" (FIN No. 46). FIN No. 46 amended ARB 51, "Consolidated Financial Statements," and established standards for determining under what circumstances a variable interest entity (VIE) should be consolidated with its primary beneficiary. FIN No. 46 also requires disclosures about VIEs that the Company is not required to consolidate but in which it has a significant variable interest. The Company

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does not expect that adoption of FIN No. 46 will have a significant impact on the results of operations, financial position or liquidity.

Reclassifications

Certain prior year amounts have been reclassified to conform with current year presentation.

3. Related Party Transactions

Four Star has various business transactions with ChevronTexaco and other ChevronTexaco subsidiaries and affiliates. These transactions principally involve sales by Four Star of crude oil, natural gas and natural gas liquids. In addition, ChevronTexaco charges Four Star for management, professional, technical and administrative services, as well as direct charges for exploration and production-related activities.

Effective December 1, 1999, Four Star entered into a service agreement with TEPI for management, administrative, professional and technical services through November 1, 2004. During 2001, Four Star paid TEPI a monthly fixed fee of $579,785 through November 30, 2001. Four Star paid TEPI a monthly fixed fee of $597,634 from December 1, 2001 through April 30, 2002, and CUSA a monthly fixed fee of $597,634 from May 1, 2002 through November 30, 2002. Beginning December 1, 2002, the rate was adjusted to $603,034 and this rate will remain in effect until November 30, 2003. An aggregate amount of $7.2 million, $7.0 million and $6.8 million in service fees was included as a component of general and administrative and other operating expenses in the accompanying consolidated statement of income for the years ended December 31, 2002, 2001 and 2000, respectively.

In addition, Four Star paid TEPI a monthly unit fee of $645,015 during the period from December 1, 2000 to November 30, 2001. On December 1, 2001, Four Star commenced payment of a monthly unit fee of $607,041. On May 1, 2002, TEPI was absorbed into CUSA as part of a legal restructuring agreement dated May 1, 2002. Total unit fees of $6.8 million, $7.7 million and $7.3 million are included as a component of general and administrative and other operating expenses in the accompanying consolidated statements of income for the years ended December 31, 2002, 2001 and 2000, respectively. The unit fee is adjusted to actual production within 90 days after contract period ending November 30, 2002.

Pursuant to the contractual agreement described in Note 10, certain tax benefits and liabilities are assumed by ChevronTexaco.

The following table summarizes sales to affiliates during 2002, 2001 and 2000. The Company makes no purchases from its affiliates.

	2002	2001	2000
		(in millions)	
Dynegy	$ 87.6	$	$
Texaco Natural Gas Inc.			