

AES CORP
Form 10-Q/A
April 13, 2006

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

**FORM 10-Q/A
(Amendment No. 2)**

(Mark One)

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

For the Quarterly Period Ended March 31, 2005

or

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

Commission file number 0-19281

THE AES CORPORATION

(Exact name of registrant as specified in its charter)

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)
4300 Wilson Boulevard, Suite 1100,
Arlington, Virginia
(Address of Principal Executive Offices)

54-1163725
(I.R.S. Employer
Identification No.)

22203
(Zip Code)

(703) 522-1315

(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. Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

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

Yes No

The number of shares outstanding of Registrant's Common Stock, par value \$0.01 per share, at April 28, 2005, was 653,174,893.

THE AES CORPORATION

FORM 10-Q/A Amendment No. 2

EXPLANATORY NOTE

This Form 10-Q/A Amendment No. 2 (the Amendment) is being filed for the purpose of amending Items 1, 2 and 4 of Part I and Item 6 of Part II of Form 10-Q/A for the quarterly period ended March 31, 2005, that was originally filed with the Securities and Exchange Commission on January 19, 2006. This Amendment is being filed to correct accounting errors in the condensed consolidated financial statements in our previously filed Form 10-Q/A as of March 31, 2005 and December 31, 2004, and for the three months ended March 31, 2004.

Subsequent to filing its restated annual report on Form 10-K/A for the year ended December 31, 2004, with the Securities Exchange Commission on January 19, 2006, the Company discovered its previously issued restated condensed consolidated financial statements included certain errors in accounting for derivative instruments and hedging activities, minority interest expense and income taxes. The errors in accounting for derivative instruments and hedging activities resulted in differences in previously issued condensed consolidated interim financial statements for certain quarterly periods in 2004 sufficient to require restatement of prior period interim results. The errors in accounting for income taxes and minority interest expense required restatement of previously issued consolidated annual financial statements.

As a result of evaluating these adjustments, the Company reduced its stockholders' equity by \$12 million as of January 1, 2003 as the cumulative effect of the correction of errors for all periods proceeding January 1, 2003, and restated its condensed consolidated statements of operations and cash flows for the years ended December 31, 2004 and 2003 and its consolidated balance sheet as of December 31, 2004.

The restatement adjustments resulted in a decrease to previously reported net income of \$6 million for the three months ended March 31, 2004. There was no impact on gross margin or net cash flow from operating activities of the Company for any periods presented. Based upon management's review it has been determined that these errors were inadvertent and unintentional. The condensed consolidated balance sheet as of March 31, 2005 has been restated to correct the effects of the adjustments to 2004 discussed below. The errors relate to the following areas:

1. Accounting for Derivative Instruments and Hedging Activities

The Company determined that it failed to perform adequate on-going effectiveness testing for three interest rate cash flow hedges and one foreign currency cash flow hedge during 2004 as required by SFAS No. 133. As a result, the Company should have discontinued hedge accounting and recognized changes in the fair value of the derivative instruments in earnings prospectively from the last valid effectiveness assessment until the earlier of either (1) the expiration of the derivative instrument or (2) the re-designation of the derivative instrument as a hedging activity.

The net impact related to the correction of these errors to previously reported net income resulted in a decrease of \$8 million for the three months ended March 31, 2004.

2. Income Tax and Minority Interest Adjustments

As a result of the Company's year end closing review process, the Company discovered certain other errors related to the recording of income tax liabilities and minority interest expense. The adjustments primarily include:

- An increase in income tax expense related to the recording of certain historical withholding tax liabilities at one of our El Salvador subsidiaries;

- An increase in minority interest expense related to a correction of the allocation of income tax expense to minority shareholders. This allocation pertained to certain deferred tax adjustments recorded in the original restatement at one of our Brazilian generating companies. In addition, minority interest expense was also corrected at this subsidiary as a result of identifying differences arising from a more comprehensive reconciliation of prior year statutory financial records to U.S. GAAP financial statements;
- A reduction of 2004 income tax expense related to adjustments derived from 2004 income tax returns filed in 2005.

The net impact related to the correction of these errors to previously reported net income resulted in an increase of \$2 million for the three months ended March 31, 2004. In addition, the Company restated stockholders' equity as of January 1, 2003 by \$12 million as a correction for these errors in all periods preceding January 1, 2003.

3. Other Balance Sheet Reclassifications

Certain other balance sheet reclassifications were recorded at December 31, 2004 including a \$45 million reclassification which reduced Accounts Receivables and increased Other Current Assets (regulatory assets).

This Form 10-Q/A Amendment No. 2 should be read in conjunction with the Company's Form 10-K for the year ended December 31, 2005, as filed with the U.S. Securities and Exchange Commission on April 4, 2006. Refer to Note 1 of the condensed consolidated financial statements in Item 1 of this Form 10-Q/A Amendment No. 2 for a discussion of the nature of the errors and the impact of the errors on the restated condensed consolidated financial statements.

We included as exhibits to this Amendment new certifications of our principal executive officer and principal financial and accounting officer.

Except for errors and interim period adjustments disclosed in Note 1, no attempt has been made in this Amendment to amend or update other disclosures presented in this Form 10-Q/A Amendment No. 2 with exception to Item 4. Controls and Procedures. This Amendment does not reflect events occurring after the filing of Form 10-Q on May 5, 2005, or amend or update those disclosures, including exhibits to the Form 10-Q affected by subsequent events. Accordingly, this Amendment should be read in conjunction with our filings with the SEC subsequent to the filing of the Form 10-Q, including any amendments to those filings.

THE AES CORPORATION

FORM 10-Q/A (Amendment No. 2)

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2005

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PART I: FINANCIAL INFORMATION**ITEM 1. FINANCIAL STATEMENTS****THE AES CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS****(Unaudited)****(Amounts in Millions, Except per Share Amounts)**

	Three Months Ended	
	March 31,	
	2005	2004
	(Restated)*	(Restated)*
Revenues		
Regulated	\$ 1,399	\$ 1,145
Non-regulated	1,264	1,111
Total revenues	2,663	2,256
Cost of sales		
Regulated	(1,032)	(883)
Non-regulated	(807)	(689)
Total cost of sales	(1,839)	(1,572)
Gross margin	824	684
General and administrative expenses	(49)	(48)
Interest expense	(467)	(511)
Interest income	90	69
Other income	22	11
Other expense	(37)	(25)
Loss on sale of investments and asset impairment expense		(1)
Foreign currency transaction losses, net	(31)	(34)
Equity in earnings of affiliates	25	16
INCOME BEFORE INCOME TAXES AND MINORITY INTEREST	377	161
Income tax expense	(147)	(72)
Minority interest expense	(106)	(53)
INCOME FROM CONTINUING OPERATIONS	124	36
Loss from operations of discontinued businesses (net of income tax expense of \$2 in 2004)		(26)
NET INCOME	\$ 124	\$ 10
Basic Earnings Per Share:		
Income from continuing operations	\$ 0.19	\$ 0.06
Discontinued operations		(0.04)
BASIC EARNINGS PER SHARE	\$ 0.19	\$ 0.02
Diluted Earnings Per Share:		
Income from continuing operations	\$ 0.19	\$ 0.06
Discontinued operations		(0.04)
DILUTED EARNINGS PER SHARE	\$ 0.19	