

AES CORP  
Form 10-Q  
August 09, 2007

# UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

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## FORM 10-Q

(Mark One)

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

For the Quarterly Period Ended June 30, 2007

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 Arlington, Virginia**

(Address of principal executive offices)

**54 1163725**

(I.R.S. Employer  
Identification No.)

**22203**

(Zip Code)

Registrant's telephone number, including area code: **(703) 522-1315**

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

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 July 31, 2007, was 668,613,428.



**EXPLANATORY NOTE**

As previously disclosed in the Company's Form 8-K dated February 26, 2007 and 10-K/A dated August 7, 2007, the financial statements presented in Item 1 and the accompanying management's discussion and analysis of financial condition and results of operations set forth in Item 2 are restated to reflect the correction of errors that were contained in the Company's condensed consolidated financial statements and other financial information for the three and six months ended June 30, 2006. In addition, the prior period financial statements have been restated to reflect the change in the Company's segments as discussed in Note 9 and discontinued operations as discussed in Note 6 of the condensed consolidated financial statements.

**THE AES CORPORATION  
FORM 10-Q  
FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2007  
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**PART I: FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****THE AES CORPORATION**  
**Condensed Consolidated Statements of Operations**  
**(Unaudited)**

	<b>Three Months Ended June 30, 2007</b>		<b>Six Months Ended June 30, 2007</b>	
		<b>2006 (Restated)(1)</b>	<b>2007 (Restated)(1)</b>	<b>2006 (Restated)(1)</b>
	<b>(in millions, except per share data)</b>		<b>(in millions, except per share data)</b>	
<b>Revenues:</b>				
Regulated	\$ 1,708	\$ 1,543	\$ 3,314	\$ 3,054
Non-Regulated	1,636	1,319	3,139	2,614
Total revenues	3,344	2,862	6,453	5,668
<b>Cost of Sales:</b>				
Regulated	(1,117 )	(992 )	(2,207 )	(1,977 )
Non-Regulated	(1,339 )	(1,003 )	(2,502 )	(1,919 )
Total cost of sales	(2,456 )	(1,995 )	(4,709 )	(3,896 )
Gross margin	888	867	1,744	1,772
General and administrative expenses	(88 )	(58 )	(171 )	(114 )
Interest expense	(411 )	(432 )	(833 )	(850 )
Interest income	141	87	241	201
Other expense	(24 )	(31 )	(65 )	(109 )
Other income	262	24	299	43
Gain on sale of investments	9	2	10	89
Asset impairment expense		(16 )		(16 )
Foreign currency transaction losses on net monetary position	(4 )	(4 )	(4 )	(27 )
Equity in earnings of affiliates	21	11	41	46
Other non-operating expense	(6 )		(45 )	
<b>INCOME BEFORE INCOME TAXES AND MINORITY INTEREST</b>	<b>788</b>	<b>450</b>	<b>1,217</b>	<b>1,035</b>
Income tax expense	(274 )	(88 )	(455 )	(275 )
Minority interest expense	(235 )	(169 )	(371 )	(243 )
<b>INCOME FROM CONTINUING OPERATIONS</b>	<b>279</b>	<b>193</b>	<b>391</b>	<b>517</b>
Income from operations of discontinued businesses net of income tax expense of \$11, \$26, \$23 and \$39, respectively	9	27	71	45
Loss from disposal of discontinued businesses net of income tax expense of \$	(41 )	(66 )	(677 )	(66 )
Income from extraordinary item net of income tax expense of \$		21		21
<b>NET INCOME (LOSS)</b>	<b>\$ 247</b>	<b>\$ 175</b>	<b>\$ (215 )</b>	<b>\$ 517</b>
<b>BASIC EARNINGS (LOSS) PER SHARE:</b>				
Income from continuing operations	\$ 0.42	\$ 0.30	\$ 0.59	\$ 0.79
Discontinued operations	(0.05 )	(0.06 )	(0.91 )	(0.03 )
Extraordinary item		0.03		0.03
<b>BASIC EARNINGS (LOSS) PER SHARE:</b>	<b>\$ 0.37</b>	<b>\$ 0.27</b>	<b>\$ (0.32 )</b>	<b>\$ 0.79</b>
<b>DILUTED EARNINGS (LOSS) PER SHARE:</b>				
Income from continuing operations	\$ 0.41	\$ 0.29	\$ 0.58	\$ 0.77
Discontinued operations	(0.05 )	(0.06 )	(0.90 )	(0.03 )
Extraordinary item		0.03		0.03
<b>DILUTED EARNINGS (LOSS) PER SHARE:</b>	<b>\$ 0.36</b>	<b>\$ 0.26</b>	<b>\$ (0.32 )</b>	<b>\$ 0.77</b>

(1) See Note 1 related to the restated condensed consolidated financial statements

See Notes to Condensed Consolidated Financial Statements.



**THE AES CORPORATION**  
**Condensed Consolidated Balance Sheets**  
**(Unaudited)**

	<b>June 30, 2007</b>	<b>December 31, 2006</b>
	<b>(in millions)</b>	
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 1,478	\$ 1,379
Restricted cash	662	548
Short-term investments	1,204	640
Accounts receivable, net of reserves of \$242 and \$233, respectively	2,036	1,769
Inventory	497	471
Receivable from affiliates	94	76
Deferred income taxes - current	251	208
Prepaid expenses	147	109
Other current assets	1,168	927
Current assets of held for sale and discontinued businesses	18	438
Total current assets	7,555	6,565
<b>NONCURRENT ASSETS</b>		
<b>Property, Plant and Equipment:</b>		
Land	996	928
Electric generation and distribution assets	24,216	21,835
Accumulated depreciation	(7,106 )	(6,545 )
Construction in progress	1,133	979
Property, plant and equipment, net	19,239	17,197
<b>Other assets:</b>		
Deferred financing costs, net of accumulated amortization of \$202 and \$188, respectively	282	279
Investments in and advances to affiliates	721	595
Debt service reserves and other deposits	549	524
Goodwill, net	1,468	1,416
Other intangible assets, net of accumulated amortization of \$201 and \$172, respectively	341	298
Deferred income taxes - noncurrent	691	602
Other assets	1,739	1,634
Noncurrent assets of held for sale and discontinued businesses	37	2,091
Total other assets	5,828	7,439
<b>TOTAL ASSETS</b>	<b>\$ 32,622</b>	<b>\$ 31,201</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 913	\$ 795
Accrued interest	299	404
Accrued and other liabilities	2,314	2,131
Non-recourse debt-current portion	1,515	1,411
Recourse debt-current portion	615	
Current liabilities of held for sale and discontinued businesses	4	288
Total current liabilities	5,660	5,029
<b>LONG-TERM LIABILITIES</b>		
Non-recourse debt	10,829	9,834
Recourse debt	4,180	4,790
Deferred income taxes-noncurrent	1,185	803
Pension liabilities and other post-retirement liabilities	898	844
Other long-term liabilities	3,544	3,554
Long-term liabilities of held for sale and discontinued businesses	2	434
Total long-term liabilities	20,638	20,259
Minority Interest (including discontinued businesses of \$- and \$175, respectively)	3,263	2,948
Commitments and Contingent Liabilities (see Note 7)		
<b>STOCKHOLDERS' EQUITY</b>		
Common stock (\$.01 par value, 1,200,000,000 shares authorized; 668,336,299 and 665,126,309 shares issued and outstanding at June 30, 2007 and December 31, 2006, respectively)	7	7
Additional paid-in capital	6,791	6,654
Accumulated deficit	(1,364 )	(1,096 )
Accumulated other comprehensive loss	(2,373 )	(2,600 )
Total stockholders' equity	3,061	2,965
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 32,622</b>	<b>\$ 31,201</b>

See Notes to Condensed Consolidated Financial Statements.

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**THE AES CORPORATION**

**Notes to Condensed Consolidated Financial Statements**

**1. FINANCIAL STATEMENT PRESENTATION**

As previously disclosed in the Form 8-K of The AES Corporation ( the Company ) dated February 26, 2007 and Form 10-K/A dated August 7, 2007, the financial statements presented in Item 1 and the accompanying management's discussion and analysis of financial condition and results of operations set forth in Item 2 of this Form 10-Q are restated to reflect the correction of errors that were contained in the Company's condensed consolidated financial statements and other financial information for the three and six months ended June 30, 2006. In addition, the prior period financial statements have been restated to reflect the change in the Company's segments as discussed in Note 9 and discontinued operations as discussed in Note 6 of these condensed consolidated financial statements.

**Consolidation**

In this Quarterly Report the terms AES, the Company, us or we refer to the consolidated entity including its subsidiaries and affiliates. The term

The AES Corporation or the Parent refers only to the publicly-held holding company, The AES Corporation, excluding its subsidiaries and affiliates. Furthermore, variable interest entities in which the Company has an interest have been consolidated where the Company is identified as the primary beneficiary. Investments in which the Company has the ability to exercise significant influence but not control are accounted for using the equity method. All intercompany transactions and balances have been eliminated in consolidation.

**Interim Financial Presentation**

The accompanying unaudited condensed consolidated financial statements and footnotes have been prepared in accordance with generally accepted accounting principles in the United States of America ( GAAP ) for interim financial information and Article 10 of Regulation S-X of the Securities and Exchange Commission ( SEC ). Accordingly, they do not include all the information and footnotes required by GAAP for annual fiscal reporting periods. In the opinion of management, the interim financial information includes all adjustments of a normal recurring nature necessary for a fair statement of the results of operations, financial position and cash flows for the interim periods. The results of operations for the three and six months ended June 30, 2007, are not necessarily indicative of results that may be expected for the year ending December 31, 2007. The accompanying condensed consolidated financial statements are unaudited and should be read in conjunction with the restated audited 2006 consolidated financial statements and notes thereto, which are included in the Company's Annual Report on Form 10-K/A for the year ended December 31, 2006, as filed with the SEC on August 7, 2007.

**Restatement of Consolidated Financial Statements**

The Company restated its consolidated financial statements for the years ended December 31, 2006, December 31, 2005 and December 31, 2004 in its 2006 Form 10-K/A filed with the SEC on August 7, 2007. The adjustments presented in the restatement are the result of the identification of certain financial statement errors relating to these years which, had they been corrected on a cumulative basis in the 2006 consolidated financial statements, would have materially misstated the results of prior periods. The Company is also restating the previously issued interim periods ending March 31, 2006, June 30, 2006 and September 30, 2006. The errors that were identified related to accounting for derivative instruments, leases, income taxes, share-based compensation and certain items in our Brazil and La Electricidad de Caracas ( EDC ) subsidiaries.

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The condensed consolidated financial statements have been restated in this Form 10-Q to reflect the impact of correcting these errors for the three and six months ended June 30, 2006 and resulted in an increase to net income of \$6 million and a decrease to net income of \$3 million, respectively. The impact of the restatement resulted in a decrease of previously reported net income of \$57 million for the full year ended December 31, 2006. The Company also plans to amend its previously filed Form 10-Q for the three months ended March 31, 2007 to reflect the impact of certain additional errors noted in the aforementioned restatement adjustments that were not previously reflected in the Form 10-Q filed with the SEC on June 21, 2007. The impact of all adjustments on net income for the three months ended March 31, 2007 and 2006 is a decrease of \$7 million and \$6 million, respectively, and is reflected in the condensed consolidated statement of operations balances for the six months ended June 30, 2007.

The restatement adjustments reflect the correction of errors included in the May 23, 2007 Form 10-K and the August 7, 2007 Form 10-K/A. Significant adjustments included:

*Revenue* The determination that modification of power sales agreements contained leases in our AES Pakistan subsidiaries and the correction of unbilled revenues in Venezuela decreased revenue by \$12 million and \$23 million for the three and six months ended June 30, 2006, respectively. The \$12 million decrease for the three months ended June 30, 2006 was offset by an \$8 million Sul tariff adjustment.

*Cost of Sales* Decrease of the US GAAP fixed asset basis and related depreciation at Eletropaulo of \$6 million and \$11 million for the three and six months ended June 30, 2006, respectively.

*Equity in Earnings of Affiliates* The deconsolidation of the Cartegena business, due to application of Financial Accounting Standards Board Interpretation No. 46, *Variable Interest Entities*, reduced earnings of equity affiliates by \$10 million and \$11 million for the three and six months ended June 30, 2006, respectively.

*Income Tax Expense* The tax effect of other adjustments increased income tax expense by \$6 million and \$10 million for the three and six months ended June 30, 2006, respectively.

*Other Expense* The deconsolidation of the Cartegena business and the correction of the timing of impairment of the Totem investment reduced other expense by \$28 million for the three and six months ended June 30, 2006.

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The following table details the impact of the restatement adjustments on the condensed consolidated statement of operations for the three months ended June 30, 2006:

	<b>Three Months Ended June 30, 2006</b>				<b>2007 2Q Form 10-Q</b>
	<b>As Originally Filed</b>	<b>Discontinued Operations</b>		<b>Restatement Adjustments</b>	
		<b>EDC</b>	<b>Central Valley</b>		
<b>Revenues:</b>					
Regulated	\$ 1,506	\$ (161 )	\$	\$ 198	1,543
Non-Regulated	1,532		(9 )	(204 )	1,319
Total revenues	3,038	(161 )	(9 )	(6 )	2,862
<b>Cost of Sales:</b>					
Regulated	(1,098 )	104		2	(992 )
Non-Regulated	(1,021 )		12	6	(1,003 )
Total cost of sales	(2,119 )	104	12	8	(1,995 )
Gross margin	919	(57 )	3	2	867
General and administrative expenses	(59 )			1	(58 )
Interest expense	(442 )	12		(2 )	(432 )
Interest income	90	(5 )		2	87
Other expense	(61 )	1		29	(31 )
Other income	26	(3 )		1	24
Gain (loss) on sale of investments	2				2
Loss on sale of subsidiary stock					
Asset impairment expense	(16 )				(16 )
Foreign currency transaction losses on net monetary position	1	(3 )		(2 )	(4 )
Equity in earnings of affiliates	23			(12 )	11
<b>INCOME BEFORE INCOME TAXES AND MINORITY INTEREST</b>	<b>483</b>	<b>(55 )</b>	<b>3</b>	<b>19</b>	<b>450</b>
Income tax expense	(106 )	25	(1 )	(6 )	(88 )
Minority interest expense	(166 )	6		(9 )	(169 )
<b>INCOME FROM CONTINUING OPERATIONS</b>	<b>211</b>	<b>(24 )</b>	<b>2</b>	<b>4</b>	<b>193</b>
Income (loss) from operations of discontinued businesses net of income tax		24	(2 )	5	27
(Loss) gain from disposal of discontinued businesses net of income tax	(63 )			(3 )	(66 )
<b>INCOME BEFORE EXTRAORDINARY ITEMS AND CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE</b>	<b>148</b>			<b>6</b>	<b>154</b>
Income from extraordinary items net of income tax	21				21
<b>INCOME BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE</b>	<b>169</b>			<b>6</b>	<b>175</b>
Cumulative effect of change in accounting principle net of income tax					
Net income	\$ 169	\$		\$ 6	\$ 175