AES CORP
Form 10-Q
May 07, 2010
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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**

Commission file number 1-12291

THE AES CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	**54 1163725**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
4300 Wilson Boulevard Arlington, Virginia	**22203**

(Address of principal executive offices) **(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 x 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). Yes x 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. (Check one):

Large accelerated filer x	Accelerated filer ¨	Non-accelerated filer ¨ (Do not check if a smaller reporting company)	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 ¨ No x

The number of shares outstanding of Registrant s Common Stock, par value $0.01 per share, on April 30, 2010, was 795,378,395.

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THE AES CORPORATION

FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2010

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PART I: FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

THE AES CORPORATION

Condensed Consolidated Statements of Operations

(Unaudited)

	Three Months Ended March 31, 2010	2009
	(in millions, except per share amounts)	
Revenue:		
Regulated	$ 2,241	$ 1,666
Non-Regulated	1,871	1,603
Total revenue	4,112	3,269
Cost of Sales:		
Regulated	(1,666)	(1,220)
Non-Regulated	(1,446)	(1,193)
Total cost of sales	(3,112)	(2,413)
Gross margin	1,000	856
General and administrative expenses	(82)	(84)
Interest expense	(393)	(380)
Interest income	109	93
Other expense	(12)	(22)
Other income	9	222
Gain on sale of investments	-	13
Foreign currency transaction gains (losses) on net monetary position	(51)	(39)
Other non-operating expense	-	(10)
INCOME FROM CONTINUING OPERATIONS BEFORE TAXES AND EQUITY IN EARNINGS OF AFFILIATES	580	649
Income tax expense	(196)	(174)
Net equity in earnings of affiliates	14	7
INCOME FROM CONTINUING OPERATIONS	398	482
Income from operations of discontinued businesses, net of income tax expense of $1 and $1, respectively	17	19
Loss from disposal of discontinued businesses, net of income tax benefit of $ and $, respectively	(13)	-
NET INCOME	402	501
Noncontrolling interests:		
Less: Income from continuing operations attributable to noncontrolling interests	(213)	(274)
Less: Income from discontinued operations attributable to noncontrolling interests	(2)	(9)
Total net income attributable to noncontrolling interests	(215)	(283)
NET INCOME ATTRIBUTABLE TO THE AES CORPORATION	$ 187	$ 218

BASIC EARNINGS PER SHARE:				
Income from continuing operations attributable to The AES Corporation common stockholders, net of tax	$	0.27	$	0.31
Discontinued operations attributable to The AES Corporation common stockholders, net of tax		-		0.02
NET INCOME ATTRIBUTABLE TO THE AES CORPORATION COMMON STOCKHOLDERS	$	0.27	$	0.33
DILUTED EARNINGS PER SHARE:				
Income from continuing operations attributable to The AES Corporation common stockholders, net of tax	$	0.27	$	0.31
Discontinued operations attributable to The AES Corporation common stockholders, net of tax		-		0.02
NET INCOME ATTRIBUTABLE TO THE AES CORPORATION COMMON STOCKHOLDERS	$	0.27	$	0.33
AMOUNTS ATTRIBUTABLE TO THE AES CORPORATION COMMON STOCKHOLDERS:				
Income from continuing operations, net of tax	$	185	$	208
Discontinued operations, net of tax		2		10
Net income	$	187	$	218

See Notes to Condensed Consolidated Financial Statements

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THE AES CORPORATION

Condensed Consolidated Balance Sheets

	March 31, 2010	December 31, 2009
	(in millions except share and per share data)	
	(unaudited)	
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 3,392	$ 1,809
Restricted cash	565	407
Short-term investments	1,731	1,648
Accounts receivable, net of allowance for doubtful accounts of $293 and $290, respectively	2,244	2,152
Inventory	575	569
Receivable from affiliates	15	24
Deferred income taxes current	235	218
Prepaid expenses	221	162
Other current assets	1,215	1,558
Current assets of discontinued and held for sale businesses	267	240
Total current assets	10,460	8,787
NONCURRENT ASSETS		
Property, Plant and Equipment:		
Land	1,095	1,111
Electric generation, distribution assets and other	29,057	27,462
Accumulated depreciation	(9,205)	(8,920)
Construction in progress	3,880	4,644
Property, plant and equipment, net	24,827	24,297
Other Assets:		
Deferred financing costs, net of accumulated amortization of $310 and $297, respectively	389	384
Investments in and advances to affiliates	1,175	1,157
Debt service reserves and other deposits	695	595
Goodwill	1,297	1,299
Other intangible assets, net of accumulated amortization of $227 and $223, respectively	508	510
Deferred income taxes noncurrent	639	604
Other	1,556	1,551
Noncurrent assets of discontinued and held for sale businesses	336	351
Total other assets	6,595	6,451
TOTAL ASSETS	$ 41,882	$ 39,535
LIABILITIES AND EQUITY		
CURRENT LIABILITIES		
Accounts payable and other accrued liabilities	$ 4,057	$ 4,234
Accrued interest	351	271
Non-recourse debt current	1,863	1,759
Recourse debt current	473	214
Current liabilities of discontinued and held for sale businesses	150	143
Total current liabilities	6,894	6,621
LONG-TERM LIABILITIES		

Non-recourse debt noncurrent		13,271		12,642
Recourse debt noncurrent		5,035		5,301
Deferred income taxes noncurrent		1,130		1,090
Pension and other post-retirement liabilities		1,285		1,322
Other long-term liabilities		3,253		3,208
Long-term liabilities of discontinued and held for sale businesses		418		411
Total long-term liabilities		24,392		23,974
Contingencies and Commitments (see Note 7)				
Cumulative preferred stock of subsidiary		60		60
EQUITY				
THE AES CORPORATION STOCKHOLDERS EQUITY				
Common stock ($0.01 par value, 1,200,000,000 shares authorized; 804,079,027 issued and 795,174,732 outstanding at March 31, 2010 and 677,214,493 issued and 667,679,913 outstanding at December 31, 2009		8		7
Additional paid-in capital		8,447		6,868
Retained earnings		791		650
Accumulated other comprehensive loss		(2,881)		(2,724)
Treasury stock, at cost (8,904,295 shares at March 31, 2010 and 9,534,580 shares at December 31, 2009, respectively)		(118)		(126)
Total The AES Corporation stockholders equity		6,247		4,675
NONCONTROLLING INTERESTS		4,289		4,205
Total equity		10,536		8,880
TOTAL LIABILITIES AND EQUITY	$	41,882	$	39,535

See Notes to Condensed Consolidated Financial Statements

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THE AES CORPORATION

Condensed Consolidated Statements of Cash Flows

(Unaudited)

	Three Months Ended March 31, 2010	2009
	(in millions)	
OPERATING ACTIVITIES:		
Net income	$ 402	$ 501
Adjustments to net income:		
Depreciation and amortization	293	245
Loss (gain) from sale of investments and impairment expense	4	(12)
Loss on disposal and impairment write-down discontinued operations	13	-
Provision for deferred taxes	29	(25)
Contingencies	46	(102)
(Gain) loss on the extinguishment of debt	-	14
Other	(20)	41
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable	(64)	80
Decrease in inventory	3	47
Decrease (increase) in prepaid expenses and other current assets	47	(124)
Increase in other assets	(70)	(73)
Increase (decrease) in accounts payable and accrued liabilities	56	(192)
Decrease in income taxes and other income tax payables, net	(97)	(9)
Increase (decrease) in other liabilities	42	(34)
Net cash provided by operating activities	684	357
INVESTING ACTIVITIES:		
Capital expenditures	(493)	(574)
Acquisitions net of cash acquired	(34)	-
Proceeds from the sale of businesses	99	-
Sale of short-term investments	1,006	999
Purchase of short-term investments	(1,102)	(686)
(Increase) decrease in restricted cash	(46)	293
(Increase) decrease in debt service reserves and other assets	(61)	73
Affiliate advances and equity investments	(23)	(30)
Other investing	59	2
Net cash (used in) provided by investing activities	(595)	77
FINANCING ACTIVITIES:		
Issuance of common stock	1,570	-
Borrowings (repayments) under the revolving credit facilities, net	26	(153)
Issuance of non-recourse debt	216	244
Repayments of non-recourse debt	(182)	(169)
Payments for deferred financing costs	(13)	(22)
Distributions to noncontrolling interests	(72)	(12)
Contributions from noncontrolling interests	-	73
Financed capital expenditures	(30)	(49)
Other financing	-	1

Net cash provided by (used in) financing activities	1,515	(87)
Effect of exchange rate changes on cash	(21)	(2)
Total increase in cash and cash equivalents	1,583	345
Cash and cash equivalents, beginning	1,809	881
Cash and cash equivalents, ending	$ 3,392	$ 1,226
SUPPLEMENTAL DISCLOSURES:		
Cash payments for interest, net of amounts capitalized	$ 284	$ 271
Cash payments for income taxes, net of refunds	$ 260	$ 200

See Notes to Condensed Consolidated Financial Statements

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THE AES CORPORATION

Condensed Consolidated Statement of Changes in Equity

(Unaudited)

	THE AES CORPORATION STOCKHOLDERS						
	Common Stock	Treasury Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Noncontrolling Interests	Consolidated Comprehensive Income
	(in millions)						
Balance at January 1, 2010	$ 7	$ (126)	$ 6,868	$ 650	$ (2,724)	$ 4,205	$
Net income	-	-	-	187	-	215	402
Change in fair value of available-for-sale securities, net of income tax	-	-	-	-	(4)	-	(4)
Foreign currency translation adjustment, net of income tax	-	-	-	-	(88)	(46)	(134)
Change in unfunded pensions obligation, net of income tax	-	-	-	-	1	1	2
Change in derivative fair value, including a reclassification to earnings, net of income tax	-	-	-	-	(28)	(6)	(34)
Other comprehensive income							(170)
Total comprehensive income							$ 232
Cumulative effect of consolidation of entities under variable interest entity accounting guidance	-	-	-	(47)	(38)	15	
Cumulative effect of deconsolidation of entities under variable interest entity accounting guidance	-	-	-	1	-	-	
Capital contributions from noncontrolling interests	-	-	-	-	-	2	
Dividends declared to noncontrolling interests	-	-	-	-	-	(97)	
Issuance of common stock	1	-	1,566	-	-	-	
Issuance of common stock under benefit plans and exercise of stock options and warrants, net of income tax	-	8	6	-	-	-	
Stock compensation	-	-	7	-	-	-	
Balance at March 31, 2010	$ 8	$ (118)	$ 8,447	$ 791	$ (2,881)	$ 4,289	

	THE AES CORPORATION STOCKHOLDERS						
	Common Stock	Treasury Stock	Additional Paid-In Capital	(Accumulated Deficit) / Retained Earnings	Accumulated Other Comprehensive Loss	Noncontrolling Interests	Consolidated Comprehensive Income
	(in millions)						
Balance at January 1, 2009	$ 7	$ (144)	$ 6,832	$ (8)	$ (3,018)	$ 3,358	$
Net income	-	-	-	218	-	283	501
Foreign currency translation adjustment, net of income tax	-	-	-	-	(72)	3	(69)
Change in unfunded pensions obligation, net of income tax	-	-	-	-	1	-	1
Change in derivative fair value, including a reclassification to earnings, net of income tax	-	-	-	-	80	14	94

Other comprehensive income							26
Total comprehensive income							$ 527
Capital contributions from noncontrolling interests	-	-	-	-	-	73	
Dividends declared to noncontrolling interests	-	-	-	-	-	(9)	
Issuance of common stock under benefit plans and exercise of stock options and warrants, net of income tax	-	17	-	-	-	-	
Stock compensation	-	-	2	-	-	-	
Balance at March 31, 2009	$ 7	$ (127)	$ 6,834	$ 210	$ (3,009)	$ 3,722	

See Notes to Condensed Consolidated Financial Statements

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THE AES CORPORATION

Notes to Condensed Consolidated Financial Statements

For the Three Months Ended March 31, 2010 and 2009

1. FINANCIAL STATEMENT PRESENTATION

The prior period condensed consolidated financial statements in this Quarterly Report on Form 10-Q (Form 10-Q) have been reclassified to reflect the businesses held for sale and discontinued operations as discussed in Note 12 *Discontinued Operations*. In addition, certain immaterial prior period amounts have been reclassified within the condensed consolidated financial statements to conform to current period presentation.

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 , the Parent or the Parent Company refer only to the publicly-held holding company, The AES Corporation, excluding its subsidiaries and affiliates. Furthermore, variable interest entities (VIEs) in which the Company has an interest have been consolidated where the Company is 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 of accounting. 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 (U.S. GAAP) as contained in the Financial Accounting Standards Board (FASB) Accounting Standards Codification (the Codification or ASC) for interim financial information and Article 10 of Regulation S-X issued by the Securities and Exchange Commission (SEC). Accordingly, they do not include all the information and footnotes required by U.S. 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 presentation of the results of operations, financial position, changes in equity and cash flows. The results of operations for the three months ended March 31, 2010 are not necessarily indicative of results that may be expected for the year ending December 31, 2010. The accompanying condensed consolidated financial statements are unaudited and should be read in conjunction with the 2009 audited consolidated financial statements and notes thereto, which are included in the 2009 Form 10-K filed with the SEC on February 25, 2010.

Significant New Accounting Policies

Accounting Standards Update (ASU) No. 2009-16, Accounting for Transfers of Financial Assets (former Financial Accounting Standard (FAS) No. 166, Accounting for Transfers of Financial Assets, an Amendment of FASB Statement No. 140)

Effective January 1, 2010, the Company prospectively adopted the new accounting guidance on transfers of financial assets, which among other things: removes the concept of a qualifying special purpose entity; introduces the concept of participating interests and specifies that in order to qualify for sale accounting a partial transfer of a financial asset or a group of financial assets should meet the definition of a participating interest; clarifies that an entity should consider all arrangements made contemporaneously with or in contemplation of a transfer and requires enhanced disclosures to provide financial statement users with greater transparency about transfers of financial assets and a transferor s continuing involvement with transfers of financial assets accounted for as sales. Upon adoption on January 1, 2010, the Company recognized $50 million as accounts receivable and an associated secured borrowing on its condensed consolidated balance sheet. IPL, the Company s integrated utility in Indianapolis, had securitized these accounts receivable through IPL Funding, a special purpose entity, and previously recognized the transaction as a sale and had not recognized the accounts receivable and secured borrowing on its balance sheet. Under the facility, interest in these accounts receivable is transferred to unrelated parties (the Purchasers) up to the lesser of $50 million or an amount determinable under the facility agreement. The Purchasers assume the risk of collection on the interest sold without recourse to IPL, which retains the servicing rights for the interest sold. Under the new accounting guidance, the retained interest in these securitized accounts receivable does not meet the definition of a participating interest, thereby requiring the Company to recognize on its condensed consolidated balance sheet the portion transferred and the proceeds received as accounts receivable and a secured borrowing, respectively.

ASU No. 2009-17, Consolidations, Improvements to Financial Reporting by Enterprises involved with Variable Interest Entities (former FAS No. 167, Amendments to FASB Interpretation No. 46(R))

Effective January 1, 2010, the Company prospectively adopted the new accounting guidance on the consolidation of VIEs. The new guidance requires an entity to qualitatively, rather than quantitatively, assess the determination of the primary beneficiary of a VIE. This determination should be based on whether the entity has the power to direct the activities that most significantly impact the economic performance of the VIE and the obligation to absorb losses or the right to receive benefits of the VIE that could potentially be significant to the VIE. Other key changes include: a requirement for the ongoing reconsideration of the primary beneficiary, the criteria for determining whether service provider or decision maker contracts are variable interests, the consideration of kick-out and removal rights in determining whether an entity is a VIE, the types of events that trigger the reassessment of whether an entity is a VIE and the expansion of the disclosures previously required.

The determination of the entity that has the power to direct the activities that most significantly impact the economic performance of the VIE required significant judgment and assumptions for certain of the Company s businesses. That determination considered the purpose and design of the businesses, the risks that the businesses were designed to create and pass along to other entities, the activities of the businesses that could be directed and which entity could direct them, and the expected relative impact of those activities on the economic performance of the businesses through their life. The businesses for which significant judgment and assumptions were required were primarily certain generation businesses who have power purchase agreements (PPAs) to sell energy exclusively or primarily to a single counterparty for the term of those agreements. For these generation businesses, the counterparty has the power to dispatch energy and, in some instances, to make decisions regarding the sale of excess energy. As such, the counterparty has power to direct certain activities that significantly impact the economic performance of the business. However, the counterparty usually does not have the power to direct any of the other activities that could significantly impact the economic performance, primarily through the cash flows and gross margin (if any) earned by the business from the sale of energy to the counterparty and sometimes through the absorption of fuel price risk by the counterparty. These other activities include: daily operation and management, maintenance and repairs and capital expenditures, plant expansion, decisions regarding overall financing of ongoing operations and budgets and, in some instances, decisions regarding sale of excess energy. As such, the AES generation business has power to direct some activities of the business that significantly impact its economic performance, primarily through the cash flows and gross margin earned from capacity payments received from being available to produce energy and from any sale of energy to other entities (particularly during any period beyond the end of the power purchase agreement). For these VIEs, the determination as to which set of activities most significantly impact the economic performance of the business required significant judgment and assumptions and resulted in the conclusion that the activities directed by the counterparty were less significant than those directed by the AES business.

The adoption of the new guidance resulted in the deconsolidation of certain immaterial VIEs previously consolidated. Additionally, assets, liabilities and operating results of two of our VIEs, previously accounted for under the equity method of accounting, were required to be consolidated. Cartagena, a 71% owned generation business in Spain, and Cili, a 51% owned generation business in China, were consolidated under the new guidance resulting in a cumulative effect adjustment of $47 million to retained earnings as of January 1, 2010. The cumulative effect adjustment is primarily comprised of losses that were not recognized while the equity