

DYNEGY INC /IL/
Form 10-Q/A
January 19, 2005
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q/A
AMENDMENT NO.1

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

For the quarterly period ended September 30, 2004

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

For the transition period from _____ to _____

Commission file number: 1-15659

DYNEGY INC.

(Exact name of registrant as specified in its charter)

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Illinois
(State or other jurisdiction of incorporation or organization)

74-2928353
(I.R.S. Employer Identification No.)

1000 Louisiana, Suite 5800

Houston, Texas 77002

(Address of principal executive offices)

(Zip Code)

(713) 507-6400

(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 an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes No

Number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: Class A common stock, no par value per share, 283,135,636 shares outstanding as of November 8, 2004; Class B common stock, no par value per share, 96,891,014 shares outstanding as of November 8, 2004.

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DYNEGY INC.

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Introductory Note

Dynegy Inc. is filing this Amendment No. 1 on Form 10-Q/A (Amendment No. 1) to reflect the effect of a \$7 million balance sheet reclassification on our historical unaudited condensed consolidated financial statements and related information, as reported in our Quarterly Report on Form 10-Q for the period ended September 30, 2004, which was originally filed on November 15, 2004 (the Original Filing). This item is discussed in more detail in the Introductory Note to the accompanying unaudited condensed consolidated financial statements beginning on page 8. Revised financial information for the periods presented reflecting this reclassification was previously included in our Annual Report on Form 10-K for the year December 31, 2003, which was most recently amended by Amendment No. 2 thereto filed with the SEC on January 18, 2005 (the Form 10-K/A). The restated financial and other information included in this Amendment No. 1 should be read together with the Form 10-K/A. The following Items of the Original Filing are amended by this Amendment No. 1:

Item 1. Condensed Consolidated Financial Statements

Item 4. Controls and Procedures

Item 6. Exhibits and Reports on Form 8-K

Unaffected items have not been repeated in this Amendment No. 1.

PLEASE NOTE THAT THE INFORMATION CONTAINED IN THIS AMENDMENT NO. 1, INCLUDING THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AND THE NOTES THERETO, DOES NOT REFLECT EVENTS OCCURRING AFTER THE DATE OF THE ORIGINAL FILING. SUCH EVENTS INCLUDE, AMONG OTHERS, THE EVENTS DESCRIBED IN OUR CURRENT REPORTS ON FORM 8-K. FOR A DESCRIPTION OF THESE EVENTS, PLEASE READ OUR EXCHANGE ACT REPORTS FILED SINCE NOVEMBER 15, 2004, INCLUDING OUR CURRENT REPORTS ON FORM 8-K AND ANY AMENDMENTS THERETO.

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As used in this Form 10-Q, the abbreviations listed below have the following meanings:

ARO	Asset retirement obligation
Bbtu/d	Billions of British thermal units per day
Cal ISO	The California Independent System Operator
Cal PX	The California Power Exchange
CDWR	California Department of Water Resources
CFTC	Commodity Futures Trading Commission
CPUC	California Public Utilities Commission
CRM	Our customer risk management business segment
CUSA	Chevron U.S.A. Inc., a wholly owned subsidiary of ChevronTexaco
\$/Bbl	Dollars per barrel
\$/Gal	Dollars per gallon
DGC	Dynegy Global Communications
DHI	Dynegy Holdings Inc., our primary financing subsidiary
DMG	Dynegy Midwest Generation, Inc.
DMS	Dynegy Midstream Services
DPM	Dynegy Power Marketing Inc.
EITF	Emerging Issues Task Force
EPA	Environmental Protection Agency
ERCOT	Electric Reliability Council of Texas, Inc.
ERISA	The Employee Retirement Income Security Act of 1974, as amended
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
FIN	FASB Interpretation
Form 8-K	Our Current Report on Form 8-K filed on September 22, 2004
Form 10-K	Our Annual Report on Form 10-K for the year ended December 31, 2003, filed on February 27, 2004, as amended by Amendment No. 1 on Form 10-K/A filed on July 20, 2004
Form 10-K/A	Amendment No. 2 to our Annual Report on Form 10-K for the year ended December 31, 2003, filed on January 18, 2005
Form 10-Q/A	Amendment No. 1 to our Form 10-Q for the quarter ended September 30, 2004
GAAP	Accounting principles generally accepted in the United States of America
GEN	Our power generation business segment
ICC	Illinois Commerce Commission
KWH	Kilowatt hours
kW-yr	Kilowatts per year
LIBOR	The London Interbank Offered Rate
LNG	Liquefied natural gas
MBbls/d	Thousands of barrels per day
MISO	Midwest Independent Transmission System Operator, Inc.
MMBtu	Millions of British thermal units
MMCFD	Million cubic feet per day
MW	Megawatt
MWh	Megawatt hour
NGL	Our natural gas liquids business segment
NOV	Notice of Violation
NSPS	New Source Performance Standard
Original Filing	Our Quarterly Report on Form 10-Q for the quarter ended September 30, 2004, filed on November 15, 2004
PGA	Purchase Gas Adjustment
PPO	Power Purchase Option
PRB	Powder River Basin
PSD	Prevention of Significant Deterioration
REG	Our regulated energy delivery business segment

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RTO	Regional Transmission Organization
SEC	U.S. Securities and Exchange Commission
SFAS	Statement of Financial Accounting Standards
SPE	Special Purpose Entity
VaR	Value at Risk
VIE	Variable Interest Entity
WEN	Our former wholesale energy business segment

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(unaudited) (in millions, except share data)

See Explanatory Note

	September 30, 2004	December 31, 2003
	(Restated)	(Restated)
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 926	\$ 477
Restricted cash		19
Accounts receivable, net of allowance for doubtful accounts of \$161 and \$184, respectively	698	1,010
Accounts receivable, affiliates	19	25
Inventory	260	279
Assets from risk-management activities	797	818
Prepayments and other current assets	463	402
	<u>3,163</u>	<u>3,030</u>
Total Current Assets	3,163	3,030
Property, Plant and Equipment	7,774	9,867
Accumulated depreciation	(1,626)	(1,664)
	<u>6,148</u>	<u>8,203</u>
Property, Plant and Equipment, Net	6,148	8,203
Other Assets		
Unconsolidated investments	459	612
Assets from risk-management activities	634	629
Goodwill	15	15
Other long-term assets	312	472
	<u>1,420</u>	<u>1,728</u>
Total Assets	\$ 10,731	\$ 12,961
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	\$ 553	\$ 664
Accounts payable, affiliates	84	74
Accrued liabilities and other current liabilities	510	669
Liabilities from risk-management activities	879	838
Notes payable and current portion of long-term debt	24	245
Current portion of long-term debt to affiliates	125	86
	<u>2,175</u>	<u>2,576</u>
Total Current Liabilities	2,175	2,576
Long-term debt	4,151	5,124
Long-term debt to affiliates	200	769
	<u>4,351</u>	<u>5,893</u>
Long-Term Debt	4,351	5,893
Other Liabilities		
Liabilities from risk-management activities	718	746
Deferred income taxes	526	524
Other long-term liabilities	355	743
	<u>1,599</u>	<u>2,013</u>

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Total Liabilities	8,125	10,482
Minority Interest	108	121
Commitments and Contingencies (Note 9)		
Redeemable Preferred Securities, redemption value of \$400 at September 30, 2004 and \$411 at December 31, 2003	400	411
Stockholders Equity		
Class A Common Stock, no par value, 900,000,000 shares authorized at September 30, 2004 and December 31, 2003; 284,699,441 and 280,350,169 shares issued and outstanding at September 30, 2004 and December 31, 2003, respectively	2,858	2,848
Class B Common Stock, no par value, 360,000,000 shares authorized at September 30, 2004 and December 31, 2003; 96,891,014 shares issued and outstanding at September 30, 2004 and December 31, 2003	1,006	1,006
Additional paid-in capital	47	41
Subscriptions receivable	(8)	(8)
Accumulated other comprehensive loss, net of tax	(24)	(20)
Accumulated deficit	(1,713)	(1,852)
Treasury stock, at cost, 1,679,183 shares at September 30, 2004 and December 31, 2003	(68)	(68)
Total Stockholders Equity	2,098	1,947
Total Liabilities and Stockholders Equity	\$ 10,731	\$ 12,961

See the notes to condensed consolidated financial statements.

Table of Contents**DYNEGY INC.****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS****(unaudited) (in millions, except per share data)****See Explanatory Note**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
Revenues	\$ 1,650	\$ 1,385	\$ 4,747	\$ 4,331
Cost of sales, exclusive of depreciation shown separately below	(1,327)	(1,095)	(3,803)	(3,822)
Depreciation and amortization expense	(79)	(109)	(249)	(340)
Impairment and other charges	(2)	(1)	(83)	6
Gain (loss) on sale of assets, net	(24)		14	15
General and administrative expenses	(79)	(79)	(247)	(276)
Operating income (loss)	139	101	379	(86)
Earnings from unconsolidated investments	102	51	194	142
Interest expense	(125)	(145)	(402)	(364)
Other income and expense, net	3	2	10	13
Minority interest income (expense)	(9)	(2)	(19)	7
Accumulated distributions associated with trust preferred securities				(8)
Income (loss) from continuing operations before income taxes	110	7	162	(296)
Income tax benefit (expense) (Note 12)	(30)	(3)	1	109
Income (loss) from continuing operations	80	4	163	(187)
Income (loss) from discontinued operations, net of taxes (Notes 2 and 12)	(2)	1	(7)	(6)
Income (loss) before cumulative effect of change in accounting principles	78	5	156	(193)
Cumulative effect of change in accounting principles, net of taxes (Note 1)				55
Net income (loss)	78	5	156	(138)
Less: preferred stock dividends (gain)	6	(1,183)	17	(1,018)
Net income applicable to common stockholders	\$ 72	\$ 1,188	\$ 139	\$ 880
Earnings Per Share (Note 8):				
Basic earnings per share:				
Income from continuing operations	\$ 0.20	\$ 3.17	\$ 0.39	\$ 2.23
Income (loss) from discontinued operations	(0.01)	0.00	(0.02)	(0.02)
Cumulative effect of change in accounting principles				0.15
Basic earnings per share	\$ 0.19	\$ 3.17	\$ 0.37	\$ 2.36
Diluted earnings per share:				

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Income from continuing operations	\$ 0.16	\$ 2.65	\$ 0.33	\$ 2.10
Income (loss) from discontinued operations	0.00	0.00	(0.01)	(0.02)
Cumulative effect of change in accounting principles				0.13
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Diluted earnings per share	\$ 0.16	\$ 2.65	\$ 0.32	\$ 2.21
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Basic shares outstanding	379	375	378	373
Diluted shares outstanding	504	464	503	397

See the notes to condensed consolidated financial statements.

Table of Contents**DYNEGY INC.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(unaudited) (in millions)****See Explanatory Note**

	Nine Months Ended September 30,	
	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$ 156	\$ (138)
Adjustments to reconcile net income (loss) to net cash flows from operating activities:		
Depreciation and amortization	279	399
Impairment and other charges	83	
Earnings from unconsolidated investments, net of cash distributions	(82)	(26)
Risk-management activities	(24)	378
Gain on sale of assets, net	(14)	(45)
Deferred income taxes	27	(119)
Cumulative effect of change in accounting principles (Note 1)		(55)
Liability associated with gas transportation contracts (Note 2)	(148)	
Other	8	33
Changes in working capital:		
Accounts receivable	150	1,704
Inventory	(70)	78
Prepayments and other assets	(125)	817
Accounts payable and accrued liabilities	(123)	(2,043)
Changes in non-current assets	(17)	(22)
Changes in non-current liabilities	20	(27)
Net cash provided by operating activities	<u>120</u>	<u>934</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(221)	(259)
Proceeds from asset sales, net	527	57
Net cash provided by (used in) investing activities	<u>306</u>	<u>(202)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net proceeds from long-term borrowings	588	1,909
Repayments of long-term borrowings	(520)	(2,352)
Net cash flow from commercial paper and revolving lines of credit		(128)
Payment to ChevronTexaco for Series B preferred stock restructuring		(225)
Proceeds from issuance of capital stock	5	6
Dividends and other distributions, net	(22)	
Other financing, net	(27)	(18)
Net cash provided by (used in) financing activities	<u>24</u>	<u>(808)</u>

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Effect of exchange rate changes on cash	(1)	7
Net increase (decrease) in cash and cash equivalents	449	(69)
Cash and cash equivalents, beginning of period	477	757
	<u> </u>	<u> </u>
Cash and cash equivalents, end of period	\$ 926	\$ 688
	<u> </u>	<u> </u>

See the notes to condensed consolidated financial statements.

Table of Contents**DYNEGY INC.****CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)****(unaudited) (in millions)****See Explanatory Note**

	Three Months Ended September 30,	
	2004	2003
Net income	\$ 78	\$ 5
Cash flow hedging activities, net:		
Unrealized mark-to-market gains (losses) arising during period, net	(4)	7
Reclassification of mark-to-market losses (gains) to earnings, net	4	(8)
Changes in cash flow hedging activities, net (net of tax benefit of zero)		(1)
Foreign currency translation adjustments	3	(9)
Minimum pension liability (net of tax expense of \$23 and zero, respectively)	39	
Other comprehensive income (loss), net of tax	42	(10)
Comprehensive income (loss)	\$ 120	\$ (5)
	Nine Months Ended September 30,	
	2004	2003
Net income (loss)	\$ 156	\$ (138)
Cash flow hedging activities, net:		
Unrealized mark-to-market gains (losses) arising during period, net	(57)	52
Reclassification of mark-to-market losses (gains) to earnings, net	24	(29)
Changes in cash flow hedging activities, net (net of tax benefit (expense) of \$20 and \$(7), respectively)	(33)	23
Foreign currency translation adjustments	(12)	12
Minimum pension liability (net of tax expense of \$24 and zero, respectively)	41	
Other comprehensive income (loss), net of tax	(4)	35
Comprehensive income (loss)	\$ 152	\$ (103)

See the notes to condensed consolidated financial statements.

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DYNEGY INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Restated and Unaudited)

For the Interim Periods Ended September 30, 2004 and 2003

PLEASE NOTE THAT THESE FINANCIAL STATEMENTS AND THE NOTES THERETO DO NOT REFLECT EVENTS OCCURRING AFTER NOVEMBER 15, 2004 (THE DATE OF THE ORIGINAL FILING). FOR A DESCRIPTION OF THESE EVENTS, PLEASE READ OUR EXCHANGE ACT REPORTS FILED SINCE NOVEMBER 15, 2004, INCLUDING OUR CURRENT REPORTS ON FORM 8-K AND ANY AMENDMENTS THERETO.

Explanatory Note

On September 22, 2004, we filed a Form 8-K announcing restatements of our previously issued financial statements contained in our 2003 Form 10-K and first and second quarter 2004 Form 10-Qs. The restatements relate to our previously disclosed goodwill impairment charge associated with the sale of Illinois Power and our deferred income tax accounts. The financial information in this report has been revised to reflect the effects of these items.

Impairment of Illinois Power. As more fully discussed in Note 10 Goodwill beginning on page F-38 of our Form 10-K/A, during 2003, the value of goodwill associated with Illinois Power was determined to be impaired, resulting in our recognizing a charge of \$242 million. During 2004, while preparing to record the Illinois Power sale, we identified a deferred tax asset that was excluded from our 2003 impairment analysis. Our exclusion of this asset understated the net book value of the assets and, as a result, understated the impairment that had been recorded in 2003. The impact of the error resulted in an understatement of goodwill impairment of \$139 million and an after-tax understatement of asset impairments of \$120 million. As such, we were required to recognize an additional after-tax charge of \$259 million (\$0.61 per diluted share) in the fourth quarter 2003. In addition, we were required to recognize additional after-tax charges of \$4 million (\$0.01 per diluted share) and \$2 million (\$0.00 per diluted share) in the three months ended March 31 and June 30, 2004, respectively, due to changes in the value of the deferred tax asset. This correction had no impact on previously reported cash flows from operating activities, investing activities or financing activities. The financial information in this report has been revised to reflect the impact of this correction.

The table below summarizes the effects of the correction on our previously reported net income:

	Three Months Ended		Six Months Ended
	March 31, 2004	June 30, 2004	June 30, 2004
		(in millions)	
Impairment and other charges as previously reported	\$ (10)	\$ (44)	\$ (54)
Adjustment	(6)	(20)	(26)

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Impairment and other charges as restated	\$ (16)	\$ (64)	\$ (80)
Income tax benefit (expense) as previously reported	\$ 27	\$ (17)	\$ 10
Adjustment	2	18	20
Income tax benefit (expense) as restated	\$ 29	\$ 1	\$ 30
Net income as previously reported	\$ 74	\$ 10	\$ 84
Adjustment	(4)	(2)	(6)
Net income as restated	\$ 70	\$ 8	\$ 78

Deferred Income Tax Accounts. As discussed in the Form 8-K, and as previously disclosed in our second quarter 2004 Form 10-Q, we undertook an evaluation of our tax accounting and reconciliation controls and

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DYNEGY INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Restated and Unaudited)

For the Interim Periods Ended September 30, 2004 and 2003

processes, including a tax basis balance sheet review, which we have recently completed. Through this initiative, we determined that adjustments related to our deferred income tax accounts in periods prior to 2004 were required. The cumulative impact of these adjustments was a reduction to our deferred tax liability reflected on our December 31, 2003 balance sheet of \$154 million.

Additionally, we determined that one of the adjustments to our deferred income tax accounts arose through the purchase accounting entries recorded at the time of our acquisition of Illinois Power. In order to properly reflect the impact of the adjustment, our previously disclosed goodwill impairment recorded in the fourth quarter 2003 will be reduced by approximately \$70 million. This reduction offsets the \$139 million increase discussed in [Impairment of Illinois Power](#) above.

The restatement for the foregoing items had no effect on our previously reported net income for the nine months ended September 30, 2004 or 2003.

In the Original Filing, the entire \$154 million adjustment to our deferred income tax accounts was applied to accumulated deficit. However, in the process of completing our allocation of the adjustment to the appropriate periods, we determined that \$7 million of the adjustments should have been applied to other long-term liabilities at December 31, 2003. Our unaudited condensed consolidated financial statements have been restated to reflect this item. The table below summarizes the impact on our December 31, 2003 and September 30, 2004 balance sheets:

	September 30, 2004	December 31, 2003
	_____	_____
	(in millions)	
Deferred income taxes		
As previously reported in our Original Filing	\$ 533	\$ 524
Adjustment	(7)	
	_____	_____
As restated	\$ 526	\$ 524
	_____	_____
Other long-term liabilities		
As previously reported in our Original Filing	\$ 355	\$ 750
Adjustment		(7)
	_____	_____
As restated	\$ 355	\$ 743
	_____	_____
Accumulated deficit		
As previously reported in our Original Filing	\$ (1,720)	\$ (1,859)
Adjustment	7	7

As restated	<u>\$ (1,713)</u>	<u>\$ (1,852)</u>
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Table of Contents**DYNEGY INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Restated and Unaudited)****For the Interim Periods Ended September 30, 2004 and 2003**

Balance Sheet Summary. The table below summarizes the effects of both items discussed above on our December 31, 2003 balance sheet:

	December 31, 2003
	(in millions)
Total Assets	
As previously reported	\$ 13,293
Impairment of Illinois Power	(332)
	<hr/>
As restated	\$ 12,961
	<hr/>
Total Liabilities	
As previously reported	\$ 10,716
Impairment of Illinois Power	(73)
Deferred income tax accounts	(161)
	<hr/>
As restated	\$ 10,482
	<hr/>
Stockholder s Equity	
As previously reported	\$ 2,045
Impairment of Illinois Power	(259)
Deferred income tax accounts	161
	<hr/>
As restated	\$ 1,947
	<hr/>

Note 1 Accounting Policies

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the instructions to interim financial reporting as prescribed by the SEC. The year end condensed balance sheet data was derived from audited financial statements but does not include all disclosures required by GAAP. These interim financial statements should be read together with the consolidated financial statements and notes thereto included in our Form 10-K/A and the Explanatory Not