

Edgar Filing: RELIANT RESOURCES INC - Form 8-K

RELIANT RESOURCES INC
Form 8-K
March 15, 2002

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

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

Date of Report (Date of earliest event reported): MARCH 15, 2002

RELIANT RESOURCES, INC.

(Exact name of registrant as specified in its charter)

DELAWARE (State or other jurisdiction of incorporation)	1-16455 (Commission File Number)	76-0655566 (IRS Employer Identification No.)
---	-------------------------------------	--

1111 LOUISIANA HOUSTON, TEXAS (Address of principal executive offices)	77002 (Zip Code)
--	---------------------

Registrant's telephone number, including area code: (713) 207-3000

ITEM 5. OTHER EVENTS.

ANNOUNCEMENT OF 2001 RESULTS

On March 15, 2002, Reliant Resources, Inc. ("Reliant Resources" and, together with its subsidiaries, the "Company") reported fourth quarter 2001 and year 2001 earnings. For additional information regarding Reliant Resources' fourth quarter 2001 earnings and its year 2001 earnings, please refer to Reliant Resources' press release attached to this report as Exhibit 99.1 (the "Press Release"), which Press Release, other than the information therein under the caption "Outlook for 2002," is incorporated by reference herein. Reliant Resources also announced changes to its second and third quarter 2001 earnings. For additional information regarding these restated earnings, please see the Press Release under the caption "Restatement of Earnings for Second and Third Quarters of 2001" as well as "Restatement of Second and Third Quarter Earnings" below.

MANAGEMENT PRESENTATION AND CONFERENCE CALL

On March 15, 2002, executives of Reliant Resources spoke to the public, as well as various members of the financial and investment community in Houston, Texas regarding Reliant Resources' 2001 results and the 2002 outlook of Reliant Resources. A copy of the slide presentation given at this presentation is attached to this report as Exhibit 99.2 (the "Slide Presentation"), and slides

Edgar Filing: RELIANT RESOURCES INC - Form 8-K

six through ten thereof, are incorporated by reference herein. A replay of this presentation has been made available on Reliant Resources' web site found at www.ReliantResources.com in the Investor Relations section and will be archived for 25 days after the event. In addition, a replay of the presentation can be accessed until March 21, 2002, 9 p.m. Houston time, by calling (800) 642-1687 (Conference I.D. 3444270).

RESTATEMENT OF SECOND AND THIRD QUARTER EARNINGS

The Company is providing information concerning a required restatement of its Quarterly Reports on Form 10-Q ("Interim Financial Statements") for the quarters ended June 30, 2001 and September 30, 2001. As a result, the previously issued Interim Financial Statements for these periods should not be relied upon.

Background. In early 2001, the Company's forecasts indicated a substantial increase in earnings as a result of price volatility in the California power markets. The Company did not believe that the early 2001 price levels were sustainable over subsequent years. As a result, the Company determined that its key financial metrics would be improved if it entered into physical delivery contracts with end-user customers in which the Company would sell power at a levelized price over the 2001-2003 or longer time frame. The result of this type of transaction would have provided the end-user with a favorable price in 2001 and provided the Company with a favorable price in subsequent years. This energy marketing approach would have advantages for both parties to the long-term contracts. The Company would have reduced the variability of future cash flows and the end-user would have reduced pricing volatility. The Company had been in negotiations with a large end-user customer over precisely such an arrangement since late 2000. By late Spring 2001, it became clear that a final agreement with that customer was unlikely. At this point, the Company began to look for similar deals with other end user customers, a process that evolved into the structured transactions discussed below.

Discussion of Accounting Restatement. On February 5, 2002, the Company announced that it was restating its earnings for the second and third quarters of 2001. As more fully described below, the restatement relates to a correction in accounting treatment for a series of four structured transactions that were inappropriately accounted for as cash flow hedges for the period of May 2001 through September 2001.

During the May 2001 through September 2001 time frame, the Company entered into a series of four structured transactions that were intended to increase future cash flow and earnings and to increase certainty associated with future cash flow and earnings, albeit at the expense of 2001 cash flow and earnings. It was contemplated that the structured transactions would qualify for hedge accounting under the Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended ("SFAS No. 133"). The transactions were recorded in the Company's cash flow hedge accounting records and were, in effect, overlaid on existing contracts entered into as hedges. In general, each structured transaction involved a series of forward contracts to buy and sell an energy commodity in 2001 and to buy and sell an energy commodity in 2002 or 2003. Each series of contracts in a structure were executed contemporaneously with the same counterparty and were for the same commodities, quantities and locations. The contracts in each structure were offsetting in terms of physical attributes. In two of the four structured transactions, a series of contracts were entered into with the same counterparty to mitigate credit exposure (the "credit mitigation contracts"). These credit mitigation contracts mirrored the cash flows and terms from the other contracts in the structure, except for an

Edgar Filing: RELIANT RESOURCES INC - Form 8-K

upfront demand payment made to the counterparty in these two transactions. In addition, in contemplation of one of the structured transactions, in August 2001, the Company entered into forward contracts with a different counterparty to buy and sell natural gas, a portion of which was inappropriately recorded in the fourth quarter of 2001. The counterparties to all of the structured transactions were independent third parties that are regularly engaged in the energy trading business.

While each contract in each structure was not at market at inception, the contracts were intended to be at market in total, so the structure had little or no fair value at inception. Under the original accounting treatment, however, the Company recorded each applicable contract in its hedge accounting records on an individual basis, resulting in the recognition of a non-trading derivative asset or liability on the balance sheet with an offsetting entry in accumulated other comprehensive income at inception for each contract. Such accounting treatment resulted in a net loss being recorded in 2001 and ultimately would result in income being recorded for 2002 and 2003 related to these four structured transactions. In this situation, the recognition of other comprehensive income was in error, because the fair value of each contract in each structure resulted not from changes in the fair value of any anticipated transaction, but rather from the fact that the individual contracts were not at market at inception.

Having further reviewed the transactions, the Company now believes the contracts should have been accounted for as a unit within each structured transaction rather than separately and that, viewed as such, they did not qualify as cash flow hedges under SFAS No. 133. Consequently, these contracts should have been accounted for as derivatives with changes in fair value recognized through the income statement.

As a result, the Company's Interim Financial Statements and related disclosures as of June 30, 2001 and September 30, 2001 and for the three months ended June 30, 2001 and September 30, 2001, will be restated from amounts previously reported to appropriately account for the transactions as described above. Therefore, the Company will report an increase in net income as compared to earnings shown in previously issued Interim Financial Statements filed on Form 10-Q for the quarters ended June 30, 2001 and September 30, 2001 of \$53 million and \$81 million, respectively.

Audit Committee Review. At the time of the Company's public announcement of its intention to restate its reporting of the structured transactions, the Audit Committees of the Company and its parent, Reliant Energy, Incorporated, instructed the Company to conduct an internal audit review to determine whether there were any other transactions included in the asset books as cash flow hedges that failed to meet the cash flow hedge requirements under SFAS No. 133. This targeted internal audit review found no other similar transactions. The Audit Committees also directed an internal investigation by outside legal counsel of the facts and circumstances leading to the restatement, which investigation has been completed. To address the issues identified in that process, the Company expects to take remedial actions, including, among other things, changes in organizational structure and enhancement of internal controls and procedures.

The effects of the restatement are outlined in the tables below:

Edgar Filing: RELIANT RESOURCES INC - Form 8-K

RELIANT RESOURCES, INC. AND SUBSIDIARIES

	THREE MONTHS ENDED JUNE 30, 2001		
	AS RESTATED	AS PREVIOUSLY REPORTED	AS
	(IN MILLIONS, EXCEPT PER		
Revenues	\$ 9,693	\$ 9,681	\$
Expenses:			
Fuel and cost of gas sold	4,361	4,436	
Purchased power	4,771	4,771	
Other expenses	273	273	
Total	9,405	9,480	
Operating Income	288	201	
Other (Expense) Income, net	60	60	
Income Tax Expense	(120)	(86)	
Income before cumulative effect of accounting change	228	175	
Cumulative effect of accounting change, net of tax	--	--	
Net Income	\$ 228	\$ 175	\$
 BASIC EARNINGS PER SHARE:			
Income before cumulative effect of accounting change	\$ 0.83	\$ 0.63	\$
Cumulative effect of accounting change, net of tax	--	--	
Net Income	\$ 0.83	\$ 0.63	\$
 DILUTED EARNINGS PER SHARE:			
Income before cumulative effect of accounting change	\$ 0.82	\$ 0.63	\$
Cumulative effect of accounting change, net of tax	--	--	
Net Income	\$ 0.82	\$ 0.63	\$

RELIANT RESOURCES, INC. AND SUBSIDIARIES

JUNE 30, 2001

Edgar Filing: RELIANT RESOURCES INC - Form 8-K

	AS RESTATED	AS PR REP
	-----	-----
	(IN MILLIONS)	
ASSETS		
CURRENT ASSETS:		
Price risk management assets	\$ 2,514	\$
Non-trading derivative assets	2,021	
Other	4,132	
	-----	-----
Total current assets	8,667	
PROPERTY, PLANT AND EQUIPMENT, NET	4,273	
OTHER ASSETS:		
Price risk management assets	543	
Non-trading derivative assets	615	
Other	2,153	
	-----	-----
Total other assets	3,311	
	-----	-----
TOTAL ASSETS	\$ 16,251	\$
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Price risk management liabilities	\$ 2,420	\$
Non-trading derivative liabilities	1,733	
Accumulated deferred income taxes	102	
Other	2,760	
	-----	-----
Total current liabilities	7,015	
OTHER LIABILITIES:		
Accumulated deferred income taxes	161	
Price risk management liabilities	489	
Non-trading derivative liabilities	667	
Other	628	
	-----	-----
Total other liabilities	1,945	
	-----	-----
LONG-TERM DEBT	908	
	-----	-----
STOCKHOLDERS' EQUITY:		
Preferred stock; par value \$0.001 per share (125,000,000 shares authorized; none outstanding)	--	
Common stock, par value \$0.001 per share (2,000,000,000 shares authorized; 240,000,000 and 299,804,000 issued and outstanding; respectively)	--	
Additional paid-in capital	5,820	
Retained earnings	310	
Accumulated other comprehensive income	253	
	-----	-----
Stockholders' equity	6,383	
	-----	-----
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 16,251	\$
	=====	=====

Edgar Filing: RELIANT RESOURCES INC - Form 8-K

5

RELIANT RESOURCES, INC. AND SUBSIDIARIES

	THREE MONTHS ENDED SEPTEMBER 30, 2001		
	AS RESTATED	AS PREVIOUSLY REPORTED	AS
	(IN MILLIONS, EXCEPT PER		
Revenues	\$ 10,347	\$ 10,304	\$
Expenses:			
Fuel and cost of gas sold	3,208	3,298	
Purchased power	6,461	6,461	
Other expenses	327	327	
Total	9,996	10,086	
Operating Income	351	218	
Other (Expense) Income, net	13	13	
Income Tax Expense	(150)	(98)	
Income before cumulative effect of accounting change	214	133	
Cumulative effect of accounting change, net of tax	--	--	
Net Income	\$ 214	\$ 133	\$
BASIC EARNINGS PER SHARE:			
Income before cumulative effect of accounting change	\$ 0.71	\$ 0.44	\$
Cumulative effect of accounting change, net of tax	--	--	
Net Income	\$ 0.71	\$ 0.44	\$
DILUTED EARNINGS PER SHARE:			
Income before cumulative effect of accounting change	\$ 0.71	\$ 0.44	\$
Cumulative effect of accounting change, net of tax	--	--	
Net Income	\$ 0.71	\$ 0.44	\$

6

RELIANT RESOURCES, INC. AND SUBSIDIARIES

Edgar Filing: RELIANT RESOURCES INC - Form 8-K

	SEPTEMBER 30, 2012	
	AS RESTATE	AS PREPARED
	-----	-----
	(IN MILLIONS)	
ASSETS		
CURRENT ASSETS:		
Price risk management assets	\$ 2,128	\$
Non-trading derivative assets	1,330	
Other	3,297	
	-----	-----
Total current assets	6,755	
PROPERTY, PLANT AND EQUIPMENT, NET	4,561	
OTHER ASSETS:		
Price risk management assets	690	
Non-trading derivative assets	540	
Other	2,253	
	-----	-----
Total other assets	3,483	
	-----	-----
TOTAL ASSETS	\$ 14,799	\$
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Price risk management liabilities	\$ 2,089	\$
Non-trading derivative liabilities	1,119	
Accumulated deferred income taxes	144	
Other	2,131	
	-----	-----
Total current liabilities	5,483	
OTHER LIABILITIES:		
Accumulated deferred income taxes	72	
Price risk management liabilities	653	
Non-trading derivative liabilities	564	
Other	661	
	-----	-----
Total other liabilities	1,950	
	-----	-----
LONG-TERM DEBT	962	
	-----	-----
STOCKHOLDERS' EQUITY:		
Preferred stock; par value \$0.001 per share (125,000,000 shares authorized; none outstanding)	--	
Common stock, par value \$0.001 per share (2,000,000,000 shares authorized; 240,000,000 and 299,804,000 issued and outstanding; respectively)	--	
Additional paid-in capital	5,820	
Treasury stock	(20)	
Retained earnings	524	
Accumulated other comprehensive income	80	
	-----	-----
Stockholders' equity	6,404	
	-----	-----

Edgar Filing: RELIANT RESOURCES INC - Form 8-K

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY \$ 14,799 \$
=====

7

ITEM 7. FINANCIAL STATEMENTS AND EXHIBITS.

(c) Exhibits.

The following exhibits are filed herewith:

- 99.1 Press Release issued March 15, 2002 regarding Reliant Resources' 2001 earnings.
- 99.2 Slide presentation given by executive officers of Reliant Resources' regarding Reliant Resources' 2001 earnings and the 2002 outlook of Reliant Resources.

ITEM 9. REGULATION FD DISCLOSURE.

Reliant Resources incorporates by reference into this Item 9 (i) the information in the Press Release under the caption "Outlook for 2002" and (ii) the Slide Presentation (other than slides six through ten thereof). The information in Item 9 of this report is being furnished, not filed, pursuant to Regulation FD. Accordingly, the information in Item 9 of this report will not be incorporated by reference into any registration statement filed by Reliant Resources under the Securities Act of 1933, as amended, unless specifically identified therein as being incorporated therein by reference. The furnishing of the information in this report is not intended to, and does not, constitute a determination or admission by Reliant Resources, that the information in this report is material or complete, or that investors should consider this information before making an investment decision with respect to any security of Reliant Resources or any of its affiliates.

Some of the statements in this report and the exhibits hereto are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Although Reliant Resources believes that the expectations and the underlying assumptions reflected in its forward-looking statements are reasonable, there can be no assurance that these expectations will prove to be correct. Forward-looking statements involve a number of risks and uncertainties, and actual results may differ materially from the results discussed in the forward-looking statements. References in this Current Report to the terms "we," "us" or other similar terms mean the Company.

In addition to the matters described in this report and the exhibits hereto, the following are some of the factors that could cause actual results to differ materially from those expressed or implied in Reliant Resources' forward-looking statements:

- o state, federal and international legislative and regulatory developments, including deregulation, re-regulation and restructuring of the electric utility industry, and changes in or application of environmental and other laws and regulations to which we are subject,
- o the timing of the implementation of the business separation plan of Reliant Energy, Incorporated,
- o the effects of competition, including the extent and timing of the

Edgar Filing: RELIANT RESOURCES INC - Form 8-K

entry of additional competitors in our markets,

- o the degree to which we are able to successfully integrate the operations and assets of Orion Power Holdings into our Wholesale Energy segment,
- o our pursuit of potential business strategies, including acquisitions or dispositions of assets or the development of additional power generation facilities,
- o state, federal and other rate regulations in the United States and in foreign countries in which we operate or into which we might expand our operations,
- o the timing and extent of changes in commodity prices and interest rates,
- o weather variations and other natural phenomena,

8

- o political, legal and economic conditions and developments in the United States and in foreign countries in which we operate or into which we might expand our operations, including the effects of fluctuations in foreign currency exchange rates,
- o financial market conditions and the results of our financing efforts,
- o the bankruptcy or other financial distress of our trading counterparties,
- o actions by rating agencies with respect to us or our competitors,
- o acts of terrorism or war,
- o the availability and price of insurance,
- o the reliability of the systems, procedures and other infrastructure necessary to operate our retail electric business, including the systems owned and operated by the Electric Reliability Council of Texas, Inc.,
- o the performance of our projects undertaken and the success of our efforts to invest in and develop new opportunities,
- o market conditions in deregulating power markets, including the extent to which the energy crisis in the state of California is resolved, and
- o other factors we discuss in our other filings with the SEC.

The words "anticipate," "estimate," "believe," "continue," "could," "intend," "may," "plan," "potential," "predict," "should," "will," "expect," "objective," "projection," "forecast," "goal" and other similar words are intended to identify Reliant Resources' forward-looking statements.

9

Edgar Filing: RELIANT RESOURCES INC - Form 8-K

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

RELIANT RESOURCES, INC.

Date: March 15, 2002

By: /s/ MARY P. RICCIARDELLO
Mary P. Ricciardello
Senior Vice President and Chief
Accounting Officer

10

EXHIBIT INDEX

EXHIBIT NUMBER -----	DESCRIPTION -----
99.1	Press Release issued March 15, 2002 regarding Reliant Resources' 2001 earnings.
99.2	Slide presentation given by executive officers of Reliant Resources regarding Reliant Resources' 2001 earnings and the 2002 outlook of Reliant Resources.

11