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EL PASO CORP/DE
Form 8-K
June 14, 2002

UNITED STATES
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: June 14, 2002
(Date of Earliest Event Reported: May 29, 2002)

EL PASO CORPORATION
(Exact name of Registrant as specified in its charter)

| | | |
|----------------------------------------------------------------------|-----------------------------|-----------------------------------------|
| Delaware | 1-14365 | 76-0568816 |
| (State or other jurisdiction of incorporation or organization) | (Commission File Number) | (I.R.S. Employer Identification No.) |

El Paso Building
1001 Louisiana Street
Houston, Texas 77002
(Address of principal executive offices) (Zip Code)

(713) 420-2600
(Registrant's telephone number, including area code)

Item 2. ACQUISITION OR DISPOSITION OF ASSETS

On May 29, 2002, we announced our intent to sell natural gas gathering assets in the San Juan Basin to El Paso Energy Partners, L.P. for an estimated \$800 million. These assets include approximately 6,000 miles of gathering lines that are connected to over 9,500 wells producing natural gas from the San Juan Basin located in northwest New Mexico as well as other midstream assets and investments in that region. This sale is subject to the approval of both our and El Paso Energy Partners' Boards of Directors, clearance by El Paso Energy Partners' Special Conflicts Committee and regulatory review and approvals. Closing of this sale is anticipated no earlier than the fourth quarter of 2002.

Item 7. FINANCIAL STATEMENTS AND EXHIBITS

b. Unaudited Pro Forma Financial Statements

The accompanying unaudited pro forma financial statements are based on our historical consolidated financial statements as of and for the quarter ended March 31, 2002, and for the year ended December 31, 2001, adjusted for the effects of the expected sale of our San Juan Basin gathering assets, as well as the completed sale of our Texas and New Mexico midstream assets to El Paso

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Energy Partners in April 2002. The unaudited pro forma balance sheet as of March 31, 2002, assumes these dispositions occurred on the balance sheet date. The unaudited pro forma statements of income for the quarter ended March 31, 2002, and for the year ended December 31, 2001, assume these dispositions occurred on January 1, 2001. The unaudited pro forma financial statements should not be construed to be indicative of future results or results that actually would have occurred if the transactions had occurred at the dates presented. In addition, these pro forma financial statements were prepared in accordance with Article 11 of Regulation S-X. Accordingly, we have not reflected the estimated gain on our sale of the San Juan Basin gathering assets in income, made any assumptions or adjustments for possible increases in distributions by El Paso Energy Partners or assumed any additional cost savings or synergies that might occur following these transactions.

The accompanying unaudited pro forma financial statements should be read in conjunction with the historical consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2001, and our Quarterly Report on Form 10-Q for the quarter ended March 31, 2002. The pro forma adjustments require us to use estimates and assumptions based on currently available information, including assumptions about the specific assets to be sold in the San Juan transaction, assumptions regarding the terms of the San Juan transaction, estimates of costs directly attributable to the San Juan assets since these assets have been historically managed and operated as part of our overall portfolio of midstream assets in our Field Services segment and estimated income tax rates. We believe that these estimates and assumptions are reasonable, and that the significant effects of the transactions discussed above are properly reflected. However, actual results may differ from the estimates and assumptions used. Factors that may affect the pro forma financial statements presented in this Current Report on Form 8-K include the following:

- * Final determination of the specific assets to be included in the San Juan transaction and the final negotiated terms of the transaction;
- * Completion of due diligence procedures by El Paso Energy Partners and a fairness evaluation by us;
- * Approval and recommendation of the San Juan transaction by El Paso Energy Partners' Special Conflicts Committee;
- * Approval of both our and El Paso Energy Partners' Boards of Directors; and
- * Review and approval of the San Juan transaction by the Federal Trade Commission.

EL PASO CORPORATION
UNAUDITED PRO FORMA CONDENSED CONSOLIDATED BALANCE SHEET
AS OF MARCH 31, 2002
(In millions)

| | | |
|---------|-----------|-----------|
| El Paso | Pro Forma | Pro Forma |
|---------|-----------|-----------|

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| | Historical | Adjustments | Adjusted |
|-------------------------------------------------------|------------|--------------------------------------|-----------|
| | ----- | ----- | ----- |
| ASSETS | | | |
| Current assets | | | |
| Cash and cash equivalents | \$ 1,259 | \$ 800 (a) 539 (b) (1,339) (c) | \$ 1,259 |
| Accounts and notes receivable, net | 7,163 | (17) (a) | 7,146 |
| Other current assets | 4,422 | - | 4,422 |
| | ----- | ----- | ----- |
| Total current assets | 12,844 | (17) | 12,827 |
| | ----- | ----- | ----- |
| Property, plant and equipment, net | 24,304 | (323) (a) 190 (b) (774) (b) | 23,397 |
| | ----- | ----- | ----- |
| Other assets | | | |
| Investments in unconsolidated affiliates | 4,889 | (2) (a) 6 (b) | 4,893 |
| Other | 6,520 | 54 (d) | 6,574 |
| | ----- | ----- | ----- |
| | 11,409 | 58 | 11,467 |
| | ----- | ----- | ----- |
| Total assets | \$ 48,557 | \$ (866) | \$ 47,691 |
| | ===== | ===== | ===== |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | | |
| Current liabilities | | | |
| Accounts payable | \$ 6,135 | \$ - | \$ 6,135 |
| Short-term borrowings and other financing obligations | 2,674 | (1,339) (c) | 1,335 |
| Other | 3,517 | (6) (a) 56 (b) 297 (d) | 3,864 |
| | ----- | ----- | ----- |
| Total current liabilities | 12,326 | (992) | 11,334 |
| | ----- | ----- | ----- |
| Long-term debt and other financing obligations | 14,698 | - | 14,698 |
| | ----- | ----- | ----- |
| Other liabilities | | | |
| Deferred income taxes | 4,513 | (71) (b) (95) (d) | 4,347 |
| Other | 3,482 | 40 (a) (24) (b) | 3,498 |
| | ----- | ----- | ----- |
| | 7,995 | (150) | 7,845 |
| | ----- | ----- | ----- |
| Commitments and contingencies | | | |
| Securities of subsidiaries | 4,184 | - | 4,184 |
| | ----- | ----- | ----- |
| Stockholders' equity | | | |
| Common stock | 1,620 | - | 1,620 |
| Additional paid-in capital | 3,183 | - | 3,183 |
| Retained earnings | 5,169 | 424 (a) (148) (d) | 5,445 |
| Other, net | (618) | - | (618) |
| | ----- | ----- | ----- |

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| | | | |
|--------------------------------------------|-----------|----------|-----------|
| Total stockholders' equity | 9,354 | 276 | 9,630 |
| | ----- | ----- | ----- |
| Total liabilities and stockholders' equity | \$ 48,557 | \$ (866) | \$ 47,691 |
| | ===== | ===== | ===== |

See accompanying notes.

EL PASO CORPORATION UNAUDITED PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF INCOME FOR THE QUARTER ENDED MARCH 31, 2002 (In millions)

| | El Paso Historical | Pro Forma Adjustments | Pro Forma Adjusted |
|-----------------------------------------------------------|-----------------------|--------------------------|-----------------------|
| | ----- | ----- | ----- |
| Operating revenues | \$ 13,188 | \$ (112) (e) 7 (f) | \$ 13,083 |
| | ----- | ----- | ----- |
| Operating expenses | | | |
| Cost of products and services | 11,025 | (32) (e) | 10,993 |
| Operation and maintenance | 696 | (23) (e) 1 (f) | 674 |
| Merger-related costs and asset impairments | 342 | - | 342 |
| Ceiling test charge | 33 | - | 33 |
| Depreciation, depletion and amortization | 375 | (5) (e) 1 (f) | 371 |
| Taxes, other than income taxes | 92 | (6) (e) | 86 |
| | ----- | ----- | ----- |
| | 12,563 | (64) | 12,499 |
| | ----- | ----- | ----- |
| Operating income | 625 | (41) | 584 |
| | ----- | ----- | ----- |
| Other income, net | 59 | - | 59 |
| | ----- | ----- | ----- |
| Income before interest, income taxes and other charges | 684 | (41) | 643 |
| | ----- | ----- | ----- |
| Interest and debt expense | 307 | (9) (g) | 298 |
| Minority interest | 40 | - | 40 |
| Income taxes | 108 | (17) (e) (f) | 91 |
| | ----- | ----- | ----- |
| | 455 | (26) | 429 |
| | ----- | ----- | ----- |
| Income from continuing operations | \$ 229 | \$ (15) | \$ 214 |
| | ===== | ===== | ===== |
| Basic earnings per common share | | | |
| Income from continuing operations | \$ 0.44 | | \$ 0.41 |
| | ===== | | ===== |
| Diluted earnings per common share | | | |
| Income from continuing operations | \$ 0.43 | | \$ 0.40 |
| | ===== | | ===== |
| Basic average common shares outstanding | 527 | | 527 |
| | ===== | | ===== |

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| | | |
|----------------------------------------------|--------------|--------------|
| Diluted average common shares outstanding | 538 ===== | 538 ===== |
|----------------------------------------------|--------------|--------------|

See accompanying notes.

EL PASO CORPORATION
UNAUDITED PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 2001
(In millions)

| | El Paso Historical ----- | Pro Forma Adjustments ----- | Pro Forma Adjusted ----- |
|-----------------------------------------------------------|--------------------------------|-----------------------------------|--------------------------------|
| Operating revenues | \$ 57,475 | \$ (566) (e) 9 (f) | \$ 56,918 |
| Operating expenses | | | |
| Cost of products and services | 50,043 | (246) (e) | 49,797 |
| Operation and maintenance | 2,906 | (102) (e) 2 (f) | 2,806 |
| Merger-related costs and asset impairments | 1,843 | - | 1,843 |
| Ceiling test charge | 135 | - | 135 |
| Depreciation, depletion and amortization | 1,359 | (52) (e) 3 (f) | 1,310 |
| Taxes, other than income taxes | 356 | (11) (e) | 345 |
| | 56,642 | (406) | 56,236 |
| Operating income | 833 | (151) | 682 |
| Other income, net | 788 | 3 (e) | 791 |
| Income before interest, income taxes and other charges | 1,621 | (148) | 1,473 |
| Interest and debt expense | 1,155 | (37) (g) | 1,118 |
| Minority interest | 217 | - | 217 |
| Income taxes | 182 | (65) (e) (f) | 117 |
| | 1,554 | (102) | 1,452 |
| Income from continuing operations | \$ 67 | \$ (46) | \$ 21 |
| Basic and diluted earnings per common share | | | |
| Income from continuing operations | \$ 0.13 | | \$ 0.04 |
| Basic average common shares outstanding | 505 | | 505 |
| Diluted average common shares outstanding | 516 | | 516 |

See accompanying notes.

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EL PASO CORPORATION NOTES TO THE UNAUDITED PRO FORMA CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

El Paso Historical -----

These amounts represent our condensed historical consolidated balance sheet and income statements derived from our Quarterly Report on Form 10-Q as of and for the quarter ended March 31, 2002, and our Annual Report on Form 10-K for the year ended December 31, 2001.

Pro Forma Adjustments -----

These amounts represent the estimated historical results and balances of the San Juan Basin gathering assets and the Texas and New Mexico midstream assets as of and for the periods presented, as well as pro forma adjusting entries to reflect the sales of these assets, each of which is discussed below.

Pro Forma Adjusting Entries -----

- (a) To record the sale of the San Juan Basin gathering assets, including other assets, investments and related contracts for an estimated \$800 million in cash. Based on the net book values of the assets sold, an estimated pretax gain on the sale of these assets of \$424 million, net of our ownership interest in El Paso Energy Partners, is reflected in retained earnings.
- (b) To record the sale of the Texas and New Mexico midstream assets for approximately \$735 million. Net proceeds from this sale included:
 - * Cash totaling \$539 million;
 - * Common units of the partnership with a fair value of approximately \$6 million; and
 - * An interest in the Prince Production platform and an overriding royalty interest in the Prince field, having a combined estimated fair value of \$190 million.

The pro forma adjustment also reflects the assumption of \$24 million of environmental liabilities by El Paso Energy Partners, the adjustment for working capital changes through closing of the sale and income tax related adjustments. Based on the net book values of the assets sold, there was no book gain or loss on this sale.

- (c) To record the use of cash proceeds from these sales to repay short-term borrowings.
- (d) To record the income tax impact of the gain on the sale of the San Juan Basin gathering assets using an estimated effective tax rate of 35 percent.

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- (e) To exclude the historical results of the San Juan Basin gathering assets and the Texas and New Mexico midstream assets for the periods presented. Income tax expenses were adjusted at an estimated effective income tax rate of 35 percent.
- (f) To record the impact of income from the Prince Production platform and the overriding royalty interest in the Prince field received in the sale of the Texas and New Mexico midstream assets. Income tax expenses were adjusted at an estimated effective income tax rate of 35 percent.
- (g) To record the impact on interest expense associated with our use of the sales proceeds to reduce short-term borrowings. The rate used to determine these amounts is based on a weighted average interest rate as of March 31, 2002 of 2.7 percent. If this interest rate increased or decreased by 0.25 percent, the impact on interest expense would have been higher or lower by approximately \$1 million for the quarter ended March 31, 2002, and by approximately \$3 million for the year ended December 31, 2001.

SIGNATURES

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.

EL PASO CORPORATION

By: /s/ JEFFREY I. BEASON

Jeffrey I. Beason
Senior Vice President
and Controller
(Principal Accounting Officer)

Date: June 14, 2002