

EL PASO CORP/DE
Form 8-K
August 09, 2006

**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: August 3, 2006
(Date of Earliest Event Reported)**

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

Delaware
(State or other jurisdiction
of
incorporation or
organization)

1-14365
(Commission File
Number)

76-0568816
(I.R.S. Employer
Identification No.)

El Paso Building
1001 Louisiana Street
Houston, Texas 77002

(Address of principal executive offices) (Zip Code)

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

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

- o Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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Item 2.01 Acquisition and Disposition of Assets.

On August 3, 2006, we sold our interest in Midland Cogeneration Venture (MCV) to GSO Capital Partners and Rockland Capital Energy Investments for \$13 million. The sale includes our approximate 44-percent interest in MCV, a 1,575-megawatt natural gas-fired power plant located in Midland, Michigan. We previously wrote down our interest in MCV to zero; therefore, the sale will result in a third quarter 2006 pre-tax gain of approximately \$13 million. In addition, we will record a non cash, mark-to-market loss during the third quarter on natural gas supply agreements with MCV as a result of this sale, as previously disclosed. Due to their affiliated nature, we have not historically recognized gains or losses on these gas supply contracts to the extent of our 44 percent ownership interest. Based on our estimated value of these contracts as of June 30, 2006, the loss would be approximately \$135 million. This loss represents the cumulative unrecognized mark-to-market losses on these contracts attributable to our interest.

This Current Report on Form 8-K is being filed to report the completion of the sale and present the pro forma impacts of the sale on our historical financial statements.

Item 9.01 Financial Statements and Exhibits.

- (b) Pro forma financial information.

The accompanying unaudited pro forma financial statements are based on our historical condensed consolidated financial statements as of and for the six months ended June 30, 2006 and our consolidated financial statements for the year ended December 31, 2005, adjusted for the effects of the sale of MCV, as described above. The unaudited pro forma condensed consolidated balance sheet as of June 30, 2006, assumes the disposition occurred on the balance sheet date. The unaudited pro forma condensed consolidated statements of income for the six months ended June 30, 2006 and year ended December 31, 2005, assume the disposition occurred on January 1, 2005. The unaudited pro forma financial statements should be read in conjunction with the historical consolidated financial statements included in our Current Report on Form 8-K dated May 12, 2006 (which updated the financial information originally presented in our 2005 Annual Report on Form 10-K) and our Quarterly Report on Form 10-Q for the quarter ended June 30, 2006, and should not be construed to be indicative of future results or results that actually would have occurred had the transaction 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 assumed any cost savings or synergies that might occur related to the transaction.

El Paso Corporation
 Unaudited Pro Forma Condensed Consolidated Balance Sheet
 As of June 30, 2006
 (In millions)

| | El Paso Historical | Pro Forma Adjustments | | As Adjusted |
|--|-----------------------|--------------------------|----------------|----------------|
| Assets | | | | |
| Current assets | | | | |
| Cash and cash equivalents | \$ 1,762 | \$ 13 | (a) | \$ 1,775 |
| Accounts and notes receivable, net | 1,190 | - | | 1,190 |
| Other | 1,277 | 11 | (b) | 1,288 |
| Total current assets | 4,229 | 24 | | 4,253 |
| Property, plant and equipment, net | 19,355 | - | | 19,355 |
| Other assets | | | | |
| Investments in unconsolidated affiliates | 2,102 | - | | 2,102 |
| Other | 3,091 | - | | 3,091 |
| Total assets | \$ 28,777 | \$ 24 | | \$ 28,801 |
| Liabilities and Stockholders' Equity | | | | |
| Current liabilities | | | | |
| Accounts payable | \$ 986 | - | | \$ 986 |
| Short-term financing obligations, including current maturities | 838 | - | | 838 |
| Other | 2,263 | 32 | (c) | 2,295 |
| Total current liabilities | 4,087 | 32 | | 4,119 |
| Long-term debt | 15,374 | - | | 15,374 |
| Other liabilities | | | | |
| Deferred income taxes | 1,653 | 5 (36) | (d) (b) | 1,622 |
| Other | 3,094 | 103 | (c) | 3,197 |
| Commitments and contingencies | | | | |
| Securities of subsidiaries | 31 | - | | 31 |
| Stockholders' equity | | | | |
| Preferred stock | 750 | - | | 750 |
| Common stock | 2,113 | - | | 2,113 |
| Additional paid-in-capital | 4,860 | - | | 4,860 |
| Accumulated deficit | (2,909) | 8 (88) | (e) (f) | (2,989) |

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| | | | |
|--|-----------|-------|-----------|
| Other | (276) | - | (276) |
| Total stockholders' equity | 4,538 | (80) | 4,458 |
| Total liabilities and stockholders' equity | \$ 28,777 | \$ 24 | \$ 28,801 |

See accompanying notes.

El Paso Corporation
 Unaudited Pro Forma Condensed Consolidated Statement of Income
 For the Six Months Ended June 30, 2006
 (In millions, except per common share amounts)

| | El Paso Historical | Pro Forma Adjustments | | As Adjusted |
|---|-----------------------|--------------------------|-----|----------------|
| Operating revenues | \$ 2,745 | \$ 42 | (g) | \$ 2,787 |
| Operating expenses | | | | |
| Cost of products and services | 146 | - | | 146 |
| Operation and maintenance | 719 | - | | 719 |
| Depreciation, depletion and amortization | 550 | - | | 550 |
| Taxes, other than income taxes | 134 | - | | 134 |
| | 1,549 | - | | 1,549 |
| Operating income (loss) | 1,196 | 42 | | 1,238 |
| Earnings from unconsolidated affiliates | 97 | - | | 97 |
| Other income, net | 82 | - | | 82 |
| Interest and debt expense | (680) | - | | (680) |
| Income (loss) before income taxes | 695 | 42 | | 737 |
| Income taxes | 167 | 15 | (h) | 182 |
| Income (loss) from continuing operations | \$ 528 | \$ 27 | | \$ 555 |
| Basic income per common share from continuing operations | \$ 0.77 | | | \$ 0.81 |
| Diluted income per common share from continuing operations | \$ 0.73 | | | \$ 0.77 |
| Basic average common shares outstanding | 664 | | | 664 |
| Diluted average common shares outstanding | 732 | | | 732 |

See accompanying notes.

El Paso Corporation
 Unaudited Pro Forma Condensed Consolidated Statement of Income
 For the Year Ended December 31, 2005
 (In millions, except per common share amounts)

| | El Paso Historical | Pro Forma Adjustments | | As Adjusted |
|--|-----------------------|--------------------------|-----|----------------|
| Operating revenues | \$ 3,970 | \$ (96) | (g) | \$ 3,874 |
| Operating expenses | | | | |
| Cost of products and services | 323 | - | | 323 |
| Operation and maintenance | 2,032 | - | | 2,032 |
| Depreciation, depletion and amortization | 1,100 | - | | 1,100 |
| Loss on long-lived assets | 74 | - | | 74 |
| Taxes, other than income taxes | 262 | - | | 262 |
| | 3,791 | - | | 3,791 |
| Operating income (loss) | 179 | (96) | | 83 |
| Earnings from unconsolidated affiliates | 342 | 162 | (i) | 504 |
| Other income, net | 239 | - | | 239 |
| Interest and debt expense | (1,354) | - | | (1,354) |
| Distributions on preferred interests of consolidated subsidiaries | (9) | - | | (9) |
| Income (loss) before income taxes | (603) | 66 | | (537) |
| Income taxes | (251) | 23 | (h) | (228) |
| Income (loss) from continuing operations | \$ (352) | \$ 43 | | \$ (309) |
| Basic and diluted income per common share from continuing operations | \$ (0.59) | | | \$ (0.52) |
| Basic and diluted average common shares outstanding | 646 | | | 646 |

See accompanying notes.

El Paso Corporation
Notes to the Unaudited Pro Forma Condensed
Consolidated Financial Statements

El Paso Historical

These amounts represent our historical consolidated balance sheet amounts as of June 30, 2006 and income statement amounts for the six months ended June 30, 2006 and for the year ended December 31, 2005. The amounts as of and for the six months ended June 30, 2006 were derived from our Current Report on Form 10-Q for the quarter ended June 30, 2006. The amounts for the year ended December 31, 2005 were derived from our Current Report on Form 8-K dated May 12, 2006.

Pro Forma Adjustments

The pro forma adjustments represent:

- (a) the receipt of proceeds from the sale of our investment;
 - (b) the tax effect of the mark-to-market liability using a statutory rate of 35 percent;
 - (c) the current and non-current portion of the mark-to-market liability of natural gas supply agreements with MCV based on estimated values of these agreements, which represents the cumulative unrecognized mark-to-market losses on these contracts attributable to our interest;
 - (d) the tax effect of the gain on sale using a statutory rate of 35 percent;
 - (e) the impact of the gain on the sale, net of taxes;
 - (f) the impact of the mark-to-market liability, net of taxes;
 - (g) the non cash mark-to-market gains (losses) on natural gas supply agreements with MCV based on changes in the estimated values of these agreements for the six months ended June 30, 2006 and for the year ended December 31, 2005, which represents changes in the cumulative unrecognized mark-to-market losses on these contracts attributable to our interest during those periods;
 - (h) the tax effect of the pro forma adjustments using the statutory rate of 35 percent; and
 - (i) the elimination of our historical earnings from unconsolidated affiliates related to MCV, net of impairments.
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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 thereunto duly authorized.

EL PASO CORPORATION

By:

/s/ D. Mark Leland
D. Mark Leland
Executive Vice President and Chief
Financial Officer
(Principal Financial Officer)

Dated: August 9, 2006