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EL PASO CORP/DE
Form 8-K
January 09, 2003

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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: January 9, 2003
(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)	(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)

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

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Item 5. OTHER EVENTS

We are filing this Current Report on Form 8-K (i) to update our previous Form 8-Ks filed on June 14, 2002 and October 9, 2002, reporting the announced sale of a series of midstream assets (collectively, the San Juan assets) to El Paso Energy Partners, L.P. and (ii) to provide the estimated impact on our historical financial statements of the San Juan asset sale as well as other asset sales we completed during 2002 with El Paso Energy Partners.

On November 27, 2002, we completed the sale of our San Juan assets to El Paso Energy Partners, an affiliate for which one of our subsidiaries serves as the general partner, for a price of approximately \$776 million (net of capital expenditures and working capital adjustments of \$6 million). The San Juan assets sold consist of the following:

- o substantially all of our natural gas gathering, processing and treating assets in the San Juan basin of New Mexico;
- o a 35-mile, 20-inch natural gas pipeline and a 16-mile, 12-inch oil pipeline originating on the Chevron/BHP "Typhoon" platform in the Green Canyon area of the Gulf of Mexico; and
- o more than 500 miles of natural gas liquids pipelines and a related fractionation facility in Houston, Texas.

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The net proceeds we received consist of approximately \$426 million in cash and \$350 million of Series C units, a new non-voting class of the limited partner interest in El Paso Energy Partners. Prior to the completion of the transaction, we received a fairness opinion from Deutsche Bank stating that the proceeds we would receive from the partnership for these assets were fair in relation to their market value of the assets.

Item 7. FINANCIAL STATEMENTS AND EXHIBITS

b. Pro Forma Financial Information

The accompanying pro forma financial statements reflect the impact on our historical financial statements of the San Juan asset sale, as well as the sale of the Texas and New Mexico midstream assets that we sold to the partnership in April 2002. We have prepared these pro forma financial statements to allow you to evaluate the impact on our historical financial statements of the sales we have completed to the partnership during 2002. The historical financial statements and periods for which these pro forma statements have been prepared include the balance sheet as of September 30, 2002, and the income statements for the nine months ended September 30, 2002, and for the year ended December 31, 2001. These pro forma statements are unaudited. The pro forma balance sheet as of September 30, 2002, is derived from the balance sheet presented in our Quarterly Report on Form 10-Q for the quarter ended September 30, 2002, and reflects only the San Juan asset sale as though the transaction occurred on that date (the sale of our Texas and New Mexico midstream assets have already been reflected in this historical balance sheet). We derived the income statements for the nine months ended September 30, 2002, from our Quarterly Report on Form 10-Q for the quarter ended September 30, 2002, and for the year ended December 31, 2001, from our 2001 Annual Report on Form 10-K. These income statements exclude both the San Juan and Texas and New Mexico asset sales as though these transactions occurred on January 1, 2001. You should not assume that these pro forma statements are indicative of future results or the results we would have achieved had the transactions occurred at the dates presented. Additionally, these pro forma financial statements were prepared under rules established by the Securities and Exchange Commission in Article 11 of Regulation S-X. Accordingly, we did not reflect the estimated gain on our sale of the San Juan assets in income, make any assumptions or adjustments for possible increases in common unit distributions by El Paso Energy Partners or assume that any cost savings or synergies occurred following these transactions.

You should read these pro forma financial statements in conjunction with the historical financial statements included in our 2001 Annual Report on Form 10-K and our Quarterly Report on Form 10-Q for the quarter ended September 30, 2002. The pro forma adjustments we have made in this Current Report

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on Form 8-K require us to use estimates and assumptions based on currently available information, which include the 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 estimates of income tax and interest rates. We believe that our estimates and assumptions are reasonable, and that the significant effects of these asset sales have been properly reflected in our pro forma financial statements. However, actual results may differ from the estimates and assumptions used.

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EL PASO CORPORATION
 UNAUDITED PRO FORMA CONDENSED CONSOLIDATED BALANCE SHEET
 AS OF SEPTEMBER 30, 2002
 (In millions)

	El Paso Historical	Pro Forma Adjustments
	-----	-----
ASSETS		
Current assets		
Cash and cash equivalents	\$ 1,693	\$ 426 (426)
Accounts and notes receivable, net	7,446	--
Other current assets	4,280	(458)
	-----	-----
Total current assets	13,419	(458)
	-----	-----
Property, plant and equipment, net	23,641	--
	-----	-----
Other assets		
Investments in unconsolidated affiliates	4,967	(2) (350)
Other	7,079	(19) (34)
	-----	-----
Total assets	\$ 49,106	\$ (95)
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 6,309	\$ --
Short-term borrowings and other financing obligations	938	(426)
Other	3,240	(29) (237)
	-----	-----
Total current liabilities	10,487	(218)
	-----	-----
Debt	16,449	--
	-----	-----
Other liabilities		
Deferred income taxes	4,497	(108)
Other	3,709	89
	-----	-----
Total other liabilities	8,206	(19)
	-----	-----
Commitments and contingencies		
Securities of subsidiaries	3,728	--
	-----	-----
Stockholders' equity		
Common stock	1,815	--

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Additional paid-in capital	4,387	--
Retained earnings	4,811	237 (
		(95) (
Other, net	(777)	--
	-----	-----
Total stockholders' equity	10,236	142
	-----	-----
Total liabilities and stockholders' equity	\$ 49,106	\$ (95)
	=====	=====

See accompanying notes.

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EL PASO CORPORATION
 UNAUDITED PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF INCOME
 FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2002
 (In millions, except per common share amounts)

	El Paso Historical	Pro Forma Adjustments
	-----	-----
Operating revenues	\$ 9,398	\$ (414) (d)
		7 (e)
	-----	-----
Operating expenses		
Cost of products and services	4,481	(258) (d)
Operation and maintenance	1,891	(52) (d)
		1 (e)
Restructuring and merger-related costs and asset impairments	405	--
Ceiling test charges	267	--
Depreciation, depletion and amortization	1,057	(22) (d)
		1 (e)
Taxes, other than income taxes	212	(5) (d)
	-----	-----
	8,313	(335)
	-----	-----
Operating income	1,085	(72)
Other income, net	372	(1) (d)
Interest and debt expense	(1,008)	11 (f)
Returns on preferred interests of consolidated subsidiaries	(121)	--
	-----	-----
Income before income taxes	328	(62)
Income taxes	105	(26) (d)
		2 (e)
	-----	-----
Income from continuing operations	\$ 223	\$ (38)
	=====	=====
Basic and diluted earnings per common share from continuing operations	\$ 0.41	

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Basic average common shares outstanding	=====	548
Diluted average common shares outstanding	=====	549
	=====	

See accompanying notes.

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

	El Paso Historical	Pro Forma Adjustments
	-----	-----
Operating revenues	\$ 13,699	\$ (670) (d) 9 (e)
Operating expenses		
Cost of products and services	6,343	(330) (d)
Operation and maintenance	2,876	(118) (d) 2 (e)
Merger-related costs and asset impairments	1,841	--
Ceiling test charges	135	--
Depreciation, depletion and amortization	1,327	(55) (d) 3 (e)
Taxes, other than income taxes	334	(10) (d)
	-----	-----
	12,856	(508)
Operating income	843	(153)
Other income, net	786	3 (d)
Interest and debt expense	(1,156)	23 (f)
Returns on preferred interests of consolidated subsidiaries	(217)	--
	-----	-----
Income (loss) before income taxes	256	(127)
Income taxes	184	(51) (d) 2 (e)
	-----	-----
Income (loss) from continuing operations	\$ 72	\$ (78)
	=====	=====
Basic and diluted earnings (loss) per common share from continuing operations	\$ 0.14	
	=====	
Basic average common shares outstanding	505	

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Diluted average common shares outstanding

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516
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See accompanying notes.

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

EL PASO HISTORICAL

The amounts in the unaudited pro forma balance sheet and income statement as of and for the nine months ended September 30, 2002, represent our condensed historical consolidated balance sheet and income statement as presented in our Form 10-Q for the period ended September 30, 2002.

The amounts in the unaudited pro forma income statement for the year ended December 31, 2001, were derived from our 2001 Annual Report on Form 10-K, but include reclassifications to conform the information to the way in which we reported it in our September 30, 2002, Form 10-Q. These reclassification adjustments consisted of the following:

- (1) In June 2002, we adopted a consensus decision reached by the Emerging Issues Task Force (EITF) in EITF Issue No. 02-3, Issues Related to Accounting for Contracts Involved in Energy Trading and Risk Management Activities. EITF Issue No. 02-3 requires that we report all physical sales of energy commodities in our energy trading operations, net of the cost of those products. Previously, these items were reported separately. We included these net sales as a component of revenues. For the twelve months ended December 31, 2001, we reclassified costs of \$43.5 billion to operating revenues.
- (2) In June 2002, we announced the discontinuance of our coal mining operations and reclassified those activities in our historical financial statements as discontinued operations. During 2001, our net loss from coal mining operations was \$5 million.

PRO FORMA ADJUSTMENTS

These amounts represent the estimated historical results and balances of the San Juan assets as of and for the periods presented. For the periods ended September 30, 2002 and December 31, 2001, these adjustments also include the historical results of the Texas and New Mexico midstream assets we sold to the partnership in April 2002. In addition to these historical results, we have included a number of pro forma adjusting entries, which are discussed below:

PRO FORMA ADJUSTING ENTRIES

- (a) To record the net proceeds we received from the sale of the San Juan assets of \$426 million in cash and \$350 million of El Paso Energy Partners' Series C units. Based on the net book values of the assets sold, we have reflected an estimated pretax gain on the sale of these

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assets of \$323 million, of which \$86 million of the pretax gain was deferred since we own a 26.5 percent ownership interest in El Paso Energy Partners.

- (b) To record the use of cash proceeds of \$426 million from the San Juan asset sale to repay short-term borrowings.
- (c) To record the income tax impact of the gain on the sale of the San Juan assets using a statutory income tax rate of 40 percent.
- (d) To exclude the historical operating results and related income tax effect of the San Juan assets and the Texas and New Mexico midstream assets for the periods they were included in our historical income statements. Income tax expenses were adjusted at statutory income tax rates of 40 percent for the San Juan assets and 35 percent for the Texas and New Mexico midstream assets.

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- (e) To record the impact on income resulting from the Prince Production platform and the overriding royalty interest in the Prince field. These were assets we received in exchange for our Texas and New Mexico midstream assets. Income tax expenses on this income were adjusted at a statutory tax rate of 35 percent.
- (f) To record a reduction in interest expense associated with our use of the cash proceeds of \$426 million from the San Juan asset sale and \$539 million from the Texas and New Mexico midstream asset sale to reduce short-term borrowings. The rate used to determine these amounts is based on a weighted average interest rate as of September 30, 2002 of 2.4 percent. If this interest rate increased or decreased by 0.125 percent, the impact on interest expense would have been higher or lower by approximately \$0.6 million for the nine months ended September 30, 2002, and by approximately \$1.2 million for the year ended December 31, 2001.

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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

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By: /s/ JEFFREY I. BEASON

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

Date: January 9, 2003