

Spectra Energy Corp.  
Form 10-Q  
August 08, 2012  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D.C. 20549**

**FORM 10-Q**

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

**For the quarterly period ended June 30, 2012**

**or**

.. **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 1-33007**

**SPECTRA ENERGY CORP**

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(Exact Name of Registrant as Specified in its Charter)

**Delaware**  
(State or other jurisdiction of incorporation)

**20-5413139**  
(IRS Employer Identification No.)

**5400 Westheimer Court**

**Houston, Texas 77056**

(Address of principal executive offices, including zip code)

**713-627-5400**

(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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of Exchange Act.

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

Number of shares of Common Stock, \$0.001 par value, outstanding as of June 30, 2012: 652,870,488

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**FORM 10-Q FOR THE QUARTER ENDED**

**June 30, 2012**

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**CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION**

This document includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements are based on management's beliefs and assumptions. These forward-looking statements are identified by terms and phrases such as: anticipate, believe, intend, estimate, expect, continue, should, could, may, plan, project, predict, will, potential, forecast, and similar expressions. Forward-looking statements involve risks and uncertainties that may cause actual results to be materially different from the results predicted. Factors that could cause actual results to differ materially from those indicated in any forward-looking statement include, but are not limited to:

state, federal and foreign legislative and regulatory initiatives that affect cost and investment recovery, have an effect on rate structure, and affect the speed at and degree to which competition enters the natural gas industries;

outcomes of litigation and regulatory investigations, proceedings or inquiries;

weather and other natural phenomena, including the economic, operational and other effects of hurricanes and storms;

the timing and extent of changes in commodity prices, interest rates and foreign currency exchange rates;

general economic conditions, including the risk of a prolonged economic slowdown or decline, or the risk of delay in a recovery, which can affect the long-term demand for natural gas and related services;

potential effects arising from terrorist attacks and any consequential or other hostilities;

changes in environmental, safety and other laws and regulations;

the development of alternative energy resources;

results of financing efforts, including the ability to obtain financing on favorable terms, which can be affected by various factors, including credit ratings and general market and economic conditions;

increases in the cost of goods and services required to complete capital projects;

declines in the market prices of equity and debt securities and resulting funding requirements for defined benefit pension plans;

growth in opportunities, including the timing and success of efforts to develop U.S. and Canadian pipeline, storage, gathering, processing and other related infrastructure projects and the effects of competition;

the performance of natural gas transmission and storage, distribution, and gathering and processing facilities;

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the extent of success in connecting natural gas supplies to gathering, processing and transmission systems and in connecting to expanding gas markets;

the effects of accounting pronouncements issued periodically by accounting standard-setting bodies;

conditions of the capital markets during the periods covered by these forward-looking statements; and

the ability to successfully complete merger, acquisition or divestiture plans; regulatory or other limitations imposed as a result of a merger, acquisition or divestiture; and the success of the business following a merger, acquisition or divestiture.

In light of these risks, uncertainties and assumptions, the events described in the forward-looking statements might not occur or might occur to a different extent or at a different time than Spectra Energy Corp has described. Spectra Energy Corp undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

**Table of Contents****PART I. FINANCIAL INFORMATION****Item 1. Financial Statements.****SPECTRA ENERGY CORP****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS****(Unaudited)****(In millions, except per-share amounts)**

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
<b>Operating Revenues</b>				
Transportation, storage and processing of natural gas	\$ 784	\$ 773	\$ 1,615	\$ 1,564
Distribution of natural gas	240	286	745	893
Sales of natural gas liquids	56	93	205	270
Other	32	36	91	73
Total operating revenues	1,112	1,188	2,656	2,800
<b>Operating Expenses</b>				
Natural gas and petroleum products purchased	146	180	579	665
Operating, maintenance and other	334	347	655	661
Depreciation and amortization	185	177	369	352
Property and other taxes	81	82	169	167
Total operating expenses	746	786	1,772	1,845
<b>Gains on Sales of Other Assets and Other, net</b>	<b>1</b>		<b>2</b>	<b>4</b>
<b>Operating Income</b>	<b>367</b>	<b>402</b>	<b>886</b>	<b>959</b>
<b>Other Income and Expenses</b>				
Equity in earnings of unconsolidated affiliates	91	162	209	268
Other income and expenses, net	18	18	34	24
Total other income and expenses	109	180	243	292
<b>Interest Expense</b>	<b>155</b>	<b>159</b>	<b>312</b>	<b>314</b>
<b>Earnings From Continuing Operations Before Income Taxes</b>	<b>321</b>	<b>423</b>	<b>817</b>	<b>937</b>
<b>Income Tax Expense From Continuing Operations</b>	<b>80</b>	<b>125</b>	<b>217</b>	<b>264</b>
<b>Income From Continuing Operations</b>	<b>241</b>	<b>298</b>	<b>600</b>	<b>673</b>
<b>Income From Discontinued Operations, net of tax</b>		<b>9</b>	<b>2</b>	<b>16</b>
<b>Net Income</b>	<b>241</b>	<b>307</b>	<b>602</b>	<b>689</b>
<b>Net Income Noncontrolling Interests</b>	<b>26</b>	<b>23</b>	<b>54</b>	<b>48</b>

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**Net Income Controlling Interests** \$ 215 \$ 284 \$ 548 \$ 641

**Common Stock Data**

Weighted-average shares outstanding				
Basic	653	650	652	650
Diluted	655	652	655	652
Earnings per share from continuing operations				
Basic	\$ 0.33	\$ 0.42	\$ 0.84	\$ 0.96
Diluted	\$ 0.33	\$ 0.42	\$ 0.83	\$ 0.96
Earnings per share				
Basic	\$ 0.33	\$ 0.44	\$ 0.84	\$ 0.99
Diluted	\$ 0.33	\$ 0.44	\$ 0.84	\$ 0.98
Dividends per share	\$ 0.28	\$ 0.26	\$ 0.56	\$ 0.52

See Notes to Condensed Consolidated Financial Statements.

**Table of Contents****SPECTRA ENERGY CORP****CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME****(Unaudited)****(In millions)**

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
<b>Net Income</b>	\$ 241	\$ 307	\$ 602	\$ 689
Other comprehensive income				
Foreign currency translation adjustments	(133)	57	29	248
Unrealized mark-to-market net gain (loss) on hedges	3	(1)	3	
Reclassification of cash flow hedges into earnings	2	2	4	5
Pension and benefits impact	18	7	23	15
Other				8
Total other comprehensive income	(110)	65	59	276
<b>Total Comprehensive Income, net of tax</b>	<b>131</b>	<b>372</b>	<b>661</b>	<b>965</b>
<b>Less: Comprehensive Income Noncontrolling Interests</b>	<b>24</b>	<b>24</b>	<b>54</b>	<b>52</b>
<b>Comprehensive Income Controlling Interests</b>	<b>\$ 107</b>	<b>\$ 348</b>	<b>\$ 607</b>	<b>\$ 913</b>

See Notes to Condensed Consolidated Financial Statements.



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**SPECTRA ENERGY CORP**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**

(Unaudited)

(In millions)

	June 30, 2012	December 31, 2011
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 127	\$ 174
Receivables, net	715	962
Inventory	307	393
Other	246	235
<b>Total current assets</b>	<b>1,395</b>	<b>1,764</b>
<b>Investments and Other Assets</b>		
Investments in and loans to unconsolidated affiliates	2,082	2,064
Goodwill	4,435	4,420
Other	496	530
<b>Total investments and other assets</b>	<b>7,013</b>	<b>7,014</b>
<b>Property, Plant and Equipment</b>		
Cost	24,803	23,932
Less accumulated depreciation and amortization	6,005	5,674
<b>Net property, plant and equipment</b>	<b>18,798</b>	<b>18,258</b>
<b>Regulatory Assets and Deferred Debits</b>	<b>1,169</b>	<b>1,102</b>
<b>Total Assets</b>	<b>\$ 28,375</b>	<b>\$ 28,138</b>

See Notes to Condensed Consolidated Financial Statements.

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**SPECTRA ENERGY CORP**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**

(Unaudited)

(In millions, except per-share amounts)

	June 30, 2012	December 31, 2011
<b>LIABILITIES AND EQUITY</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 458	\$ 498
Short-term borrowings and commercial paper	1,073	1,052
Taxes accrued	72	82
Interest accrued	186	178
Current maturities of long-term debt	1,030	525
Other	625	766
<b>Total current liabilities</b>	<b>3,444</b>	<b>3,101</b>
<b>Long-term Debt</b>	<b>9,632</b>	<b>10,146</b>
<b>Deferred Credits and Other Liabilities</b>		
Deferred income taxes	4,163	3,940
Regulatory and other	1,730	1,797
<b>Total deferred credits and other liabilities</b>	<b>5,893</b>	<b>5,737</b>
<b>Commitments and Contingencies</b>		
<b>Preferred Stock of Subsidiaries</b>	<b>258</b>	<b>258</b>
<b>Equity</b>		
Preferred stock, \$0.001 par, 22 million shares authorized, no shares outstanding		
Common stock, \$0.001 par, 1 billion shares authorized, 653 million and 651 million shares outstanding at June 30, 2012 and December 31, 2011, respectively	1	1
Additional paid-in capital	4,830	4,814
Retained earnings	2,156	1,977
Accumulated other comprehensive income	1,332	1,273
<b>Total controlling interests</b>	<b>8,319</b>	<b>8,065</b>
Noncontrolling interests	829	831
<b>Total equity</b>	<b>9,148</b>	<b>8,896</b>
<b>Total Liabilities and Equity</b>	<b>\$ 28,375</b>	<b>\$ 28,138</b>

See Notes to Condensed Consolidated Financial Statements.



**Table of Contents****SPECTRA ENERGY CORP****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(Unaudited)****(In millions)**

	<b>Six Months Ended June 30,</b>	
	<b>2012</b>	<b>2011</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 602	\$ 689
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	375	359
Deferred income tax expense	147	199
Equity in earnings of unconsolidated affiliates	(209)	(268)
Distributions received from unconsolidated affiliates	197	201
Other	47	158
<b>Net cash provided by operating activities</b>	<b>1,159</b>	<b>1,338</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Capital expenditures	(789)	(739)
Investments in and loans to unconsolidated affiliates		(4)
Acquisitions	(30)	
Purchases of held-to-maturity securities	(1,490)	(763)
Proceeds from sales and maturities of held-to-maturity securities	1,387	733
Purchases of available-for-sale securities		(930)
Proceeds from sales and maturities of available-for-sale securities	21	1,119
Distributions received from unconsolidated affiliates	11	
Other changes in restricted funds	92	8
Other	6	5
<b>Net cash used in investing activities</b>	<b>(792)</b>	<b>(571)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from the issuance of long-term debt		805
Payments for the redemption of long-term debt	(28)	(494)
Net increase (decrease) in short-term borrowings and commercial paper	15	(258)
Net decrease in revolving credit facilities borrowings		(258)
Distributions to noncontrolling interests	(56)	(47)
Proceeds from the issuance of Spectra Energy Partners, LP common units		213
Dividends paid on common stock	(372)	(341)
Other	27	19
<b>Net cash used in financing activities</b>	<b>(414)</b>	<b>(361)</b>
Effect of exchange rate changes on cash		2
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(47)</b>	<b>408</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>174</b>	<b>130</b>

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<b>Cash and cash equivalents at end of period</b>	\$ 127	\$ 538
<b>Supplemental Disclosures</b>		
Property, plant and equipment non-cash accruals	\$ 182	\$ 169

See Notes to Condensed Consolidated Financial Statements.

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## SPECTRA ENERGY CORP

## CONDENSED CONSOLIDATED STATEMENTS OF EQUITY

(Unaudited)

(In millions)

	Common Stock	Additional Paid-in Capital	Retained Earnings	Foreign Currency Translation Adjustments	Accumulated Other Comprehensive Income Other	Noncontrolling Interests	Total
<b>December 31, 2011</b>	\$ 1	\$ 4,814	\$ 1,977	\$ 1,832	\$ (559)	\$ 831	\$ 8,896
Net income			548			54	602
Other comprehensive income				29	30		59
Dividends on common stock			(369)				(369)
Stock-based compensation		5					5
Distributions to noncontrolling interests						(56)	(56)
Spectra Energy common stock issued		11					11
<b>June 30, 2012</b>	\$ 1	\$ 4,830	\$ 2,156	\$ 1,861	\$ (529)	\$ 829	\$ 9,148
<b>December 31, 2010</b>	\$ 1	\$ 4,726	\$ 1,487	\$ 2,010	\$ (415)	\$ 678	\$ 8,487
Net income			641			48	689
Other comprehensive income				244	28	4	276
Dividends on common stock			(341)				(341)
Stock-based compensation		27					27
Distributions to noncontrolling interests							