EL PASO CORP/DE
Form 10-Q
May 04, 2012
**Table of Contents**

# UNITED STATES SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# Form 10-Q

**(Mark One)**

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

**For the quarterly period ended March 31, 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 1-14365**

# El Paso Corporation

**(Exact Name of Registrant as Specified in Its Charter)**

| | |
|---|---|
| **Delaware**<br>**(State or Other Jurisdiction of**<br><br>**Incorporation or Organization)** | **45-3953911**<br>**(I.R.S. Employer**<br><br>**Identification No.)** |
| **El Paso Building**<br>**1001 Louisiana Street Houston, Texas**<br>**(Address of Principal Executive Offices)** | **77002**<br>**(Zip Code)** |

**Telephone Number: (713) 420-2600**

**Internet Website: www.elpaso.com**

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 x 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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x 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 the Exchange Act.:

| | |
|---|---|
| Large accelerated filer x | Accelerated filer ¨ |
| Non-accelerated filer ¨ (Do not check if a smaller reporting company) | 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 x

**Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date.**

Common stock, par value $3 per share. Shares outstanding on May 2, 2012: 774,039,108

Table of Contents

**EL PASO CORPORATION**

**TABLE OF CONTENTS**



Below is a list of terms that are common to our industry and used throughout this document:

| | |
|---|---|
| /d | = per day |
| Bbl | = barrels |
| BBtu | = billion British thermal units |
| GW | = gigawatts |
| GWh | = gigawatt hours |
| LNG | = liquefied natural gas |
| MBbls | = thousand barrels |
| Mcf | = thousand cubic feet |
| Mcfe | = thousand cubic feet of natural gas equivalents |
| MMBtu | = million British thermal units |
| MMcf | = million cubic feet |
| MMcfe | = million cubic feet of natural gas equivalents |
| NGL | = natural gas liquids |
| TBtu | = trillion British thermal units |

When we refer to oil and natural gas in equivalents, we are doing so to compare quantities of oil with quantities of natural gas or to express these different commodities in a common unit. In calculating equivalents, we use a generally recognized standard in which one Bbl of oil is equal to six Mcf of natural gas. Also, when we refer to cubic feet measurements, all measurements are at a pressure of 14.73 pounds per square inch.

When we refer to us , we , our , ours , the company or El Paso , we are describing El Paso Corporation and/or our subsidiaries.

**Table of Contents**

## PART I FINANCIAL INFORMATION

### Item 1. Financial Statements

### EL PASO CORPORATION

### CONDENSED CONSOLIDATED STATEMENTS OF INCOME

**(In millions, except per common share amounts)**

**(Unaudited)**

| | $xxx,xxx | $xxx,xxx |
|---|---|---|
| | **Quarter Ended March 31,** | |
| | **2012** | **2011** |
| Operating revenues | $ 1,260 | $ 989 |
| Operating expenses | | |
| Cost of products and services | 54 | 47 |
| Operation and maintenance | 338 | 305 |
| Ceiling test charges | 62 | |
| Depreciation, depletion and amortization | 330 | 254 |
| Taxes, other than income taxes | 82 | 76 |
| | 866 | 682 |
| Operating income | 394 | 307 |
| Earnings from unconsolidated affiliates | 35 | 30 |
| Loss on debt extinguishment | | (41) |
| Other income, net | 16 | 99 |
| Interest and debt expense | (226) | (240) |
| Income before income taxes | 219 | 155 |
| Income tax expense | 70 | 19 |
| Net income | 149 | 136 |
| Net income attributable to noncontrolling interests | (63) | (74) |
| Net income attributable to El Paso Corporation | $ 86 | $ 62 |
| Basic earnings per common share | | |
| Net income attributable to El Paso Corporation | $ 0.11 | $ 0.09 |
| Diluted earnings per common share | | |
| Net income attributable to El Paso Corporation | $ 0.11 | $ 0.08 |
| Dividends declared per El Paso Corporation s common share | $ 0.01 | $ 0.01 |

See accompanying notes.

1

Table of Contents

**EL PASO CORPORATION**

**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

**(In millions)**

**(Unaudited)**

| | $xxx,xxx | $xxx,xxx |
|---|---|---|
| | **Quarter Ended March 31,** | |
| | **2012** | **2011** |
| Net income | $ 149 | $ 136 |
| Pension and postretirement obligations: | | |
| Reclassification of net actuarial losses during period (net of income taxes of $7 in both 2012 and 2011) | 14 | 16 |
| Cash flow hedging activities: | | |
| Unrealized mark-to-market (losses) gains arising during period (net of income taxes of $5 in 2012 and $2 in 2011) | (5) | 3 |
| Reclassification adjustments for amounts recognized during the period (net of income taxes of $2 in 2012 and $1 in 2011) | 2 | 3 |
| Other comprehensive income | 11 | 22 |
| Comprehensive income | 160 | 158 |
| Comprehensive income attributable to noncontrolling interests | (63) | (74) |
| Comprehensive income attributable to El Paso Corporation | $ 97 | $ 84 |

See accompanying notes.

Table of Contents

**EL PASO CORPORATION**

**CONDENSED CONSOLIDATED BALANCE SHEETS**

**(In millions, except share and per share amounts)**

**(Unaudited)**

| | March 31, 2012 | December 31, 2011 |
|---|---|---|
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | $ 305 | $ 194 |
| Accounts receivable | | |
| Customer, net of allowance of $2 in both 2012 and 2011 | 313 | 331 |
| Affiliates | 41 | 36 |
| Other | 158 | 192 |
| Notes receivable from affiliates | 113 | 85 |
| Materials and supplies | 174 | 175 |
| Assets from price risk management activities | 283 | 282 |
| Deferred income taxes | 74 | 127 |
| Other | 154 | 155 |
| Total current assets | 1,615 | 1,577 |
| Property, plant and equipment, at cost | | |
| Pipelines | 19,939 | 19,931 |
| Oil and natural gas properties, at full cost | 22,373 | 22,070 |
| Other | 528 | 529 |
| | 42,840 | 42,530 |
| Less accumulated depreciation, depletion and amortization | 23,569 | 23,360 |
| Total property, plant and equipment, net | 19,271 | 19,170 |
| Other long-term assets | | |
| Investments in unconsolidated affiliates | 2,742 | 2,739 |
| Assets from price risk management activities | 26 | 20 |
| Other | 724 | 808 |
| | 3,492 | 3,567 |
| Total assets | $ 24,378 | $ 24,314 |

See accompanying notes.

Table of Contents

**EL PASO CORPORATION**

**CONDENSED CONSOLIDATED BALANCE SHEETS**

**(In millions, except share and per share amounts)**

**(Unaudited)**

| | March 31, 2012 | December 31, 2011 |
|---|---|---|
| LIABILITIES AND EQUITY | | |
| Current liabilities | | |
| Accounts payable | | |
| Trade | $ 344 | $ 415 |
| Affiliates | 13 | 12 |
| Other | 374 | 409 |
| Short-term financing obligations, including current maturities | 361 | 362 |
| Liabilities from price risk management activities | 129 | 140 |
| Asset retirement obligations | 57 | 39 |
| Accrued interest | 233 | 184 |
| Other | 425 | 587 |
| Total current liabilities | 1,936 | 2,148 |
| Long-term financing obligations, less current maturities | 12,620 | 12,605 |
| Other long-term liabilities | | |
| Liabilities from price risk management activities | 275 | 284 |
| Deferred income taxes | 633 | 612 |
| Other | 1,632 | 1,530 |
| | 2,540 | 2,426 |
| Commitments and contingencies (Note 8) | | |
| Equity | | |
| El Paso Corporation stockholders equity: | | |
| Common stock, par value $3 per share; authorized 1,500,000,000 shares; issued 788,493,799 shares in 2012 and 787,316,201 shares in 2011 | 2,366 | 2,362 |
| Additional paid-in capital | 5,392 | 5,364 |
| Accumulated deficit | (2,207) | (2,293) |
| Accumulated other comprehensive loss | (785) | (796) |
| Treasury stock (at cost); 14,394,293 shares in 2012 and 15,081,177 shares in 2011 | (270) | (283) |
| Total El Paso Corporation stockholders equity | 4,496 | 4,354 |
| Noncontrolling interests | 2,786 | 2,781 |
| Total equity | 7,282 | 7,135 |
| Total liabilities and equity | $ 24,378 | $ 24,314 |

See accompanying notes.

Table of Contents

**EL PASO CORPORATION**

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

**(In millions)**

**(Unaudited)**

| | Quarter Ended March 31, 2012 | Quarter Ended March 31, 2011 |
|---|---|---|
| Cash flows from operating activities | | |
| Net income | $ 149 | $ 136 |
| Adjustments to reconcile net income to net cash from operating activities: | | |
| Depreciation, depletion and amortization | 330 | 254 |
| Ceiling test charges | 62 | |
| Deferred income tax expense | 69 | 26 |
| Earnings from unconsolidated affiliates, adjusted for cash distributions | (25) | (18) |
| Loss on debt extinguishment | | 41 |
| Other non-cash income items | 15 | (64) |
| Asset and liability changes | (84) | 156 |
| Net cash provided by operating activities | 516 | 531 |
| Cash flows from investing activities | | |
| Capital expenditures | (509) | (1,089) |
| Repayment of notes receivable | 37 | 1 |
| Other | 15 | (1) |
| Net cash used in investing activities | (457) | (1,089) |
| Cash flows from financing activities | | |
| Net proceeds from issuance of debt and other financing obligations | 540 | 806 |
| Payments to retire long-term debt and other financing obligations | (526) | (794) |
| Proceeds from transfer of assets to unconsolidated affiliate | 89 | |
| Net proceeds from issuance of noncontrolling interests | | 457 |
| Net proceeds from issuance of preferred stock of subsidiary | | 30 |
| Dividends paid | (8) | (16) |
| Distributions to noncontrolling interest holders | (58) | (39) |
| Distributions to holders of preferred stock of subsidiary | | (5) |
| Other | 15 | 14 |
| Net cash provided by financing activities | 52 | 453 |
| Change in cash and cash equivalents | 111 | (105) |
| Cash and cash equivalents | | |
| Beginning of period | 194 | 347 |
| End of period | $ 305 | $ 242 |

See accompanying notes.

Table of Contents

**EL PASO CORPORATION**

**CONDENSED CONSOLIDATED STATEMENTS OF EQUITY**

**(In millions)**

**(Unaudited)**

| | Quarter Ended March 31, 2012 | Quarter Ended March 31, 2011 |
|---|---|---|
| El Paso Corporation stockholders equity: | | |
| Preferred stock: | | |
| Balance at beginning of period | $ | $ 750 |
| Conversion of preferred stock | | (750) |
| Balance at end of period | | |
| Common stock: | | |
| Balance at beginning of period | 2,362 | 2,159 |
| Conversion of preferred stock | | 174 |
| Other, net | 4 | 4 |
| Balance at end of period | 2,366 | 2,337 |
| Additional paid-in capital: | | |
| Balance at beginning of period | 5,364 | 4,484 |
| Conversion of preferred stock | | 576 |
| Dividends | (8) | (7) |
| Issuances of noncontrolling interests | | 170 |
| Stock-based compensation and other | 36 | 23 |
| Balance at end of period | 5,392 | 5,246 |
| Accumulated deficit: | | |
| Balance at beginning of period | (2,293) | (2,434) |
| Net income attributable to El Paso Corporation | 86 | 62 |
| Balance at end of period | (2,207) | (2,372) |
| Accumulated other comprehensive income (loss): | | |
| Balance at beginning of period | (796) | (751) |
| Other comprehensive income attributable to El Paso Corporation | 11 | 22 |
| Balance at end of period | (785) | (729) |
| Treasury stock, at cost: | | |
| Balance at beginning of period | (283) | (291) |
| Stock-based and other compensation | 13 | 19 |
| Balance at end of period | (270) | (272) |

| | | |
|---|---|---|
| Total El Paso Corporation stockholders equity at end of period | 4,496 | 4,210 |
| Noncontrolling interests: | | |
| Balance at beginning of period | 2,781 | 2,147 |
| Issuances of noncontrolling interests | | 287 |
| Distributions to noncontrolling interests | (58) | (39) |
| Net income attributable to noncontrolling interests | 63 | 52 |
| Balance at end of period | 2,786 | 2,447 |
| Total equity at end of period | $ 7,282 | $ 6,657 |

See accompanying notes.

6

Table of Contents

**EL PASO CORPORATION**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**1. Basis of Presentation and Significant Accounting Policies**

*Basis of Presentation*

We prepared this Quarterly Report on Form 10-Q under the rules and regulations of the United States Securities and Exchange Commission (SEC). As an interim period filing presented using a condensed format, it does not include all of the disclosures required by U.S. generally accepted accounting principles (GAAP), and should be read along with our 2011 Annual Report on Form 10-K. The financial statements as of March 31, 2012, and for the quarters ended March 31, 2012 and 2011, are unaudited. The condensed consolidated balance sheet as of December 31, 2011, was derived from the audited balance sheet filed in our 2011 Annual Report on Form 10-K. In our opinion, we have made adjustments, all of which are of a normal, recurring nature to fairly present our interim period results. Due to the seasonal nature of our businesses, information for interim periods may not be indicative of our operating results for the entire year. Our disclosures in this Form 10-Q are an update to those provided in our 2011 Annual Report on Form 10-K.

*Proposed Merger with Kinder Morgan, Inc.*

In October 2011, we entered into a definitive merger agreement (the merger agreement ) with Kinder Morgan, Inc. (KMI) whereby KMI will acquire El Paso Corporation (El Paso) in a transaction that valued El Paso at approximately $38 billion (based on the KMI stock price at that date), including the assumption of debt. In March 2012, both our and KMI s stockholders approved the merger agreement and a series of transactions to effectuate the merger. As part of these transactions, on March 26, 2012, the common stockholders of El Paso Corporation ( Old El Paso ) became common stockholders of a new corporation ( New El Paso ); Old El Paso became a direct, wholly owned subsidiary of New El Paso; and New El Paso became the public reporting company as the successor issuer of Old El Paso (the predecessor for historical accounting purposes) for purposes of SEC filings. In conjunction with these transactions, Old El Paso was also converted into a Delaware limited liability company (renamed El Paso LLC) and New El Paso was renamed El Paso Corporation. New El Paso also entered into supplemental indentures whereby it guaranteed each of Old El Paso s outstanding indentures and debt securities issued thereunder and assumed the obligations under Old El Paso s Trust Preferred Securities and the underlying Subordinated Convertible Debentures as further described in Note 7. The reorganization had no impact on the reported amounts in these financial statements.

Upon the merger, El Paso shareholders will receive a combination of Class P shares of common stock of KMI, common stock purchase warrants of KMI and cash. Each share of El Paso common stock (excluding any shares held by KMI or its subsidiaries or by El Paso and dissenting shares in accordance with Delaware law), will, at the effective time of the merger, be converted into the right to receive, at the election of the holder but subject to pro-ration with respect to the stock and cash portion such that approximately 57 percent of the aggregate merger consideration (excluding the warrants) is paid in cash and approximately 43 percent (excluding the warrants) is paid in Class P common stock of KMI, par value $0.01 per share (the KMI Class P Common Stock ): (i) 0.9635 of a share of KMI Class P Common Stock and 0.640 of a common stock purchase warrant of KMI (a KMI Warrant ), (ii) $25.91 in cash without interest and 0.640 of a KMI Warrant or (iii) 0.4187 of a share of KMI Class P Common Stock, $14.65 in cash without interest and 0.640 of a KMI Warrant. Each KMI Warrant will entitle its holder to purchase one share of KMI Class P Common Stock at an exercise price of $40.00 per share, subject to certain adjustments, at any time during the five-year period following the closing of the merger.

The merger agreement includes customary representations, warranties and covenants, and specific agreements relating to (i) the conduct of each of El Paso s and KMI s respective businesses between the date of the signing of the merger agreement and the closing of the merger transactions and (ii) the efforts of the parties to cause the merger transactions to be completed. In addition to certain other covenants, we have agreed not to encourage, solicit, initiate or facilitate any takeover proposal from a third party or enter into any agreement, arrangement or understanding requiring us to abandon, terminate or fail to consummate the merger and related transactions. The merger agreement contains certain termination rights for both El Paso and KMI.

Under the terms of the merger agreement, we have agreed to conduct our business in the ordinary course and in all material respects in substantially the same manner as conducted prior to the date of the merger agreement, subject to certain conditions, restrictions and thresholds including, but not limited to, our ability to (i) commit to capital expenditures above our current capital budgets (ii) acquire, invest in, or dispose of any material properties, assets, or equity interests as defined in the merger agreement (iii) incur new debt, refinance, or guarantee any debt or borrowed money, (iv) enter into, terminate, or amend certain material contracts, (v) issue, grant, sell, or redeem new El Paso capital stock or stock-based compensation awards and/or pay dividends in excess of $0.01/share, among other limitations.

The completion of the merger transactions constitutes a change of control for El Paso that may trigger provisions in certain agreements including those related to (i) debt and other financing agreements, (ii) severance agreements and (iii) incentive compensation plan agreements that will result in an immediate acceleration of all unvested stock based compensation awards upon completion of the merger transactions. For our debt and other financing agreements containing covenants related to change in control events and that will not be terminated pursuant to the merger, we have either amended the agreements or obtained waivers of those covenants. However, if there was a downgrade of our credit ratings it could trigger certain other change of control provisions to certain agreements to which we are a party.

In conjunction with the merger agreement, KMI announced that they intend to sell our exploration and production assets. On February 24, 2012, we entered into a purchase and sale agreement to sell all of our exploration and production assets to an affiliate of Apollo Global Management, LLC (Apollo) and certain other parties for $7.15 billion subject to certain adjustments for items such as contributions or distributions, incurrence of debt and title defects. The closing of the sale of these assets is conditioned upon completion of the merger transactions with KMI. The purchase and sale agreement contains customary representations and warranties relating to the exploration and production assets and operations. Additionally, El Paso has entered into a performance guarantee in favor of Apollo, under which we guarantee the performance of all of our seller subsidiaries obligations under the purchase and sale agreement. Pursuant to the merger agreement with KMI, KMI is required to indemnify us from any and all cost incurred by us arising from or relating to the sale of the exploration and production assets. Upon completion of the sale to Apollo, the exploration and production business will be reflected as a discontinued operation in our financial statements.

On May 1, 2012, KMI announced that it received approval from the Federal Trade Commission (FTC) for the merger, subject to the previously announced divestiture of certain assets. We expect remaining required regulatory approvals, shareholder consideration elections and other remaining transactions contemplated in conjunction with the KMI merger, including the sale of our exploration and production assets, to be completed by the end of May 2012.

*Significant Accounting Policies*

There were no changes in the significant accounting policies described in our 2011 Annual Report on Form 10-K and no significant accounting pronouncements issued but not yet adopted as of March 31, 2012.

**Table of Contents**

**2. Ceiling Test Charges**

We are required to conduct quarterly impairment tests of our capitalized costs in each of our full cost pools. During the quarter ended March 31, 2012, we recorded a non-cash charge of approximately $62 million as a result of our decision to no longer explore or develop our acreage in Egypt. The charge principally relates to unevaluated costs in that country, but also includes approximately $2 million related to equipment. On April 30, 2012, we entered into a purchase and sale agreement to sell all our interests in Egypt. The sale will represent an exit from our Egyptian exploration activities. We may incur ceiling test charges in Brazil in the future depending on the value of our proved reserves, which are subject to change as a result of factors such as prices, costs and well performance.

**3. Other Income, Net**

The following are the components of other income and other expenses for the quarters ended March 31:

| | 2012 | 2011 |
|---|---|---|
| | (In millions) | |
| Other Income | | |
| Allowance for equity funds used during construction | $ 5 | $ 97 |
| Other | 12 | 7 |
| Total | $ 17 | $ 104 |
| Other Expenses | | |
| Other | $ 1 | $ 5 |
| Total | 1 | 5 |
| Other income, net | $ 16 | $ 99 |

*Allowance for Equity Funds Used During Construction.* As allowed by the Federal Energy Regulatory Commission (FERC), we capitalize a pre-tax carrying cost on equity funds related to the construction of long-lived assets in our FERC regulated business and reflect this amount as an increase in the cost of the asset on our balance sheet. We calculate this amount using the most recent FERC approved equity rate of return. These amounts are recovered over the depreciable lives of the long-lived assets to which they relate.

Table of Contents

**4. Income Taxes**

Income taxes for the quarters ended March 31 were as follows:

| | 2012 | 2011 |
|---|---|---|
| | (In millions, except rates) | |
| Income tax expense | $ 70 | $ 19 |
| Effective tax rate | 32% | 12% |

*Effective Tax Rate.* We compute interim period income taxes by applying an anticipated annual effective tax rate to our year-to-date income or loss, except for significant unusual or infrequently occurring items, which are recorded in the period in which they occur. Changes in tax laws or rates are recorded in the period of enactment. Our effective tax rate is primarily impacted by items such as income attributable to nontaxable noncontrolling interests, dividend exclusions on earnings from unconsolidated affiliates where we anticipate receiving dividends, the effect of state income taxes (net of federal income tax effects) and the effect of foreign income which can be taxed at different rates.

During the first quarter of 2012, our effective tax rate was lower than the statutory rate primarily due to income attributable to nontaxable noncontrolling interests and dividend exclusions on earnings from unconsolidated affiliates where we anticipate receiving dividends. Partially offsetting these items was the impact of an Egyptian ceiling test charge without a corresponding tax benefit. A tax benefit of approximately $40 million associated with the anticipated capital loss on the sale of our interests in Egypt will be recorded in the second quarter of 2012 consistent with the timing of our board s approval of the transaction. For a discussion of our ceiling test charges, see Note 2.

For the first quarter of 2011, our effective tax rate was lower than the statutory rate due to income attributable to nontaxable noncontrolling interests, dividend exclusions on earnings from unconsolidated affiliates where we anticipate receiving dividends, the resolution of several tax matters and earned state tax credits.

*Unrecognized Tax Benefits.* We believe it is reasonably possible that the total amount of unrecognized tax benefits (including interest and penalty) could decrease by as much as $80 million over the next 12 months as a result of the anticipated favorable resolution of certain tax matters.

**5. Earnings Per Share**

Basic and diluted earnings per common share were as follows for the quarters ended March 31:

| | 2012 | | 2011 | |
|---|---|---|---|---|
| | Basic | Diluted | Basic | Diluted |
| | (In millions, except per share amounts) | | | |
| Net income attributable to El Paso Corporation | $ 86 | $ 86 | $ 62 | $ 62 |
| Weighted average common shares outstanding | 767 | 767 | 714 | 714 |
| Effect of dilutive securities: | | | | |
| Stock-based awards | | 14 | | 10 |
| Convertible preferred stock | | | | 44 |
| Weighted average common shares outstanding and dilutive securities | 767 | 781 | 714 | 768 |
| Basic and diluted earnings per common share: | | | | |
| Net income attributable to El Paso Corporation | $ 0.11 | $ 0.11 | $ 0.09 | $ 0.08 |

We exclude potentially dilutive securities from the determination of diluted earnings per share (as well as their related income statement impacts) when their impact on net income attributable to El Paso Corporation per common share is antidilutive. Potentially dilutive securities consist of stock based awards (employee stock options, restricted stock and performance shares), convertible preferred stock and trust preferred securities. In March 2011, we converted our preferred stock to common stock. For the quarters ended March 31, 2012 and 2011, our trust preferred securities and certain of our employee stock options were antidilutive.

**Table of Contents**

**6. Financial Instruments**

The following table reflects the carrying value and fair value of our financial instruments:

| | March 31, 2012 | | December 31, 2011 | |
|---|---|---|---|---|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| | (In millions) | | | |
| Long-term financing obligations, including current maturities | $ 12,981 | $ 14,277 | $ 12,967 | $ 14,242 |
| Marketable securities in non-qualified compensation plans | 20 | 20 | 20 | 20 |
| Commodity-based derivatives | (82) | (82) | (110) | (110) |
| Interest rate derivatives | (13) | (13) | (12) | (12) |
| Other | (3) | (3) | 1 | 1 |

We estimated the fair value of our long-term financing obligations (representing a Level 2 fair value measurement) primarily based on quoted market prices for the same or similar issuances, including consideration of our credit risk related to those instruments. As of March 31, 2012 and December 31, 2011, the carrying amounts of cash and cash equivalents, accounts receivable and accounts payable represent fair value based on the short-term nature of these instruments. The carrying amounts of our restricted cash and noncurrent receivables approximate their fair value based on an analysis of the nature of their interest rates and our assessment of the ability to recover these amounts.

*Fair Value Measurement.* We separate the fair values of our financial instruments into three levels (Levels 1, 2 and 3) based on our assessment of the availability of observable market data and the significance of non-observable data used to determine fair value. Our assessment and classification of an instrument within a level can change over time based on the maturity or liquidity of the instrument and would be reflected at the end of the period in which the change occurs. During the quarter ended March 31, 2012, there have been no changes to the inputs and valuation techniques used to measure fair value, the types of instruments, or the levels in which they are classified. On certain derivative contracts recorded as assets in the table below, we are exposed to the risk that our counterparties may not perform or post the required collateral.

**Table of Contents**

The following table presents the fair value of our financial instruments at March 31, 2012 and December 31, 2011 (in millions).

| | March 31, 2012 | | | | December 31, 2011 | | |
|---|---|---|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total | Level 1 | Level 2 | Level 3 |