

Spectra Energy Corp.  
Form 10-Q  
August 13, 2007  
Index to Financial Statements

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

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**FORM 10-Q**

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

For the quarterly period ended June 30, 2007

.. **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

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**SPECTRA ENERGY CORP**

(Exact Name of Registrant as Specified in its Charter)

Delaware  
(State or other jurisdiction of incorporation)

5400 Westheimer Court

Houston, Texas 77056

(Address of principal executive offices, including zip code)

713-627-5400

20-5413139  
(IRS Employer Identification No.)

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(Registrant's telephone number, including area code)

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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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer (as defined in Rule 12b-2 of the Securities Exchange Act of 1934).

Large accelerated filer  Accelerated filer  Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Securities Exchange Act of 1934).

Yes  No

Number of shares of Common Stock, \$0.001 par value, outstanding as of August 3, 2007: 632,124,577

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**Index to Financial Statements**

**SPECTRA ENERGY CORP**  
**FORM 10-Q FOR THE QUARTER ENDED**

**June 30, 2007**

**INDEX**

	<b>Page</b>
<b><u>PART I. FINANCIAL INFORMATION</u></b>	
Item 1. <u>Financial Statements (Unaudited)</u>	4
<u>Consolidated Statements of Operations for the three and six months ended June 30, 2007 and 2006</u>	4
<u>Consolidated Balance Sheets as of June 30, 2007 and December 31, 2006</u>	5
<u>Consolidated Statements of Cash Flows for the six months ended June 30, 2007 and 2006</u>	7
<u>Consolidated Statements of Stockholders' / Member's Equity and Comprehensive Income for the six months ended June 30, 2007 and 2006</u>	8
<u>Notes to Consolidated Financial Statements</u>	10
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	34
Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	47
Item 4. <u>Controls and Procedures</u>	48
<b><u>PART II. OTHER INFORMATION</u></b>	
Item 1. <u>Legal Proceedings</u>	49
Item 1A. <u>Risk Factors</u>	49
Item 4. <u>Submission of Matters to a Vote of Security Holders</u>	49
Item 6. <u>Exhibits</u>	49
<u>Signatures</u>	49

**Index to Financial Statements**

**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, 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;

the outcomes of litigation and regulatory investigations, proceedings or inquiries;

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

changes in environmental, safety and other laws and regulations;

the 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 economic conditions;

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

growth in opportunities, including the timing and success of efforts to develop domestic and international pipeline, storage, gathering, processing and other infrastructure projects and the effects of competition;

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

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

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

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

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; and

the ability to operate effectively as a stand-alone, publicly-traded company.

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.

Index to Financial Statements

## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements.

## SPECTRA ENERGY CORP

## CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(In millions, except per share amounts)

	Three Months		Six Months Ended	
	Ended June 30, 2007	2006	June 30, 2007	2006
<b>Operating Revenues</b>				
Transportation and storage of natural gas	\$ 513	\$ 506	\$ 1,032	\$ 1,021
Distribution of natural gas	296	269	954	991
Other	176	206	400	454
<b>Total operating revenues</b>	<b>985</b>	<b>981</b>	<b>2,386</b>	<b>2,466</b>
<b>Operating Expenses</b>				
Natural gas and petroleum products purchased	237	226	799	866
Operating, maintenance and other	269	272	527	579
Depreciation and amortization	128	122	250	245
Property and other taxes	49	41	89	99
<b>Total operating expenses</b>	<b>683</b>	<b>661</b>	<b>1,665</b>	<b>1,789</b>
<b>Gains on Sales of Other Assets, net</b>		1	1	29
<b>Operating Income</b>	<b>302</b>	<b>321</b>	<b>722</b>	<b>706</b>
<b>Other Income and Expenses</b>				
Equity in earnings of unconsolidated affiliates	129	159	219	313
Other income and expenses, net	10	9	26	16
<b>Total other income and expenses</b>	<b>139</b>	<b>168</b>	<b>245</b>	<b>329</b>
<b>Interest Expense</b>	<b>156</b>	<b>148</b>	<b>311</b>	<b>291</b>
<b>Minority Interest Expense</b>	<b>15</b>	<b>11</b>	<b>31</b>	<b>22</b>
<b>Earnings From Continuing Operations Before Income Taxes</b>	<b>270</b>	<b>330</b>	<b>625</b>	<b>722</b>
<b>Income Tax Expense From Continuing Operations</b>	<b>85</b>	<b>73</b>	<b>204</b>	<b>221</b>
<b>Income From Continuing Operations</b>	<b>185</b>	<b>257</b>	<b>421</b>	<b>501</b>
<b>Income From Discontinued Operations, net of tax</b>	<b>11</b>	<b>63</b>	<b>11</b>	<b>41</b>
<b>Net Income</b>	<b>\$ 196</b>	<b>\$ 320</b>	<b>\$ 432</b>	<b>\$ 542</b>

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<b>Common Stock Data</b>				
Weighted-average shares outstanding				
Basic	632	n/a <sup>(a)</sup>	631	n/a <sup>(a)</sup>
Diluted	635	n/a	635	n/a
Earnings per share from continuing operations				
Basic and Diluted	\$ 0.29	n/a	\$ 0.66	n/a
Earnings per share from discontinued operations				
Basic and Diluted	\$ 0.02	n/a	\$ 0.02	n/a
Earnings per share total				
Basic and Diluted	\$ 0.31	n/a	\$ 0.68	n/a
Dividends per share				
	\$ 0.22	n/a	\$ 0.44	n/a

(a) not applicable

See Notes to Consolidated Financial Statements

Index to Financial Statements

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

(Unaudited)

(In millions)

	June 30, 2007	December 31, 2006
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 529	\$ 299
Receivables	701	779
Inventory	278	397
Other	107	150
<b>Total current assets</b>	<b>1,615</b>	<b>1,625</b>
<b>Investments and Other Assets</b>		
Investments in unconsolidated affiliates	1,742	1,618
Goodwill	3,755	3,507
Other	401	221
<b>Total investments and other assets</b>	<b>5,898</b>	<b>5,346</b>
<b>Property, Plant and Equipment</b>		
Cost	16,725	15,639
Less accumulated depreciation and amortization	3,549	3,245
<b>Net property, plant and equipment</b>	<b>13,176</b>	<b>12,394</b>
<b>Regulatory Assets and Deferred Debits</b>	<b>1,075</b>	<b>980</b>
<b>Total Assets</b>	<b>\$ 21,764</b>	<b>\$ 20,345</b>

See Notes to Consolidated Financial Statements



Index to Financial Statements

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

(Unaudited)

(In millions, except per-share amounts)

	June 30, 2007	December 31, 2006
<b>LIABILITIES AND STOCKHOLDERS / MEMBER S EQUITY</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 343	\$ 246
Notes payable and commercial paper	715	349
Taxes accrued	167	214
Interest accrued	155	149
Current maturities of long-term debt	829	550
Other	576	850
<b>Total current liabilities</b>	<b>2,785</b>	<b>2,358</b>
<b>Long-term Debt</b>	<b>7,734</b>	<b>7,726</b>
<b>Deferred Credits and Other Liabilities</b>		
Deferred income taxes	2,934	2,980
Other	1,547	1,077
<b>Total deferred credits and other liabilities</b>	<b>4,481</b>	<b>4,057</b>
<b>Commitments and Contingencies</b>		
<b>Minority Interests</b>	<b>594</b>	<b>565</b>
<b>Stockholders / Member s Equity</b>		
Preferred stock, \$0.001 par, 22 million shares authorized, no shares outstanding at June 30, 2007 and December 31, 2006		
Common stock, \$0.001 par, one billion shares authorized, 631 million and one thousand shares outstanding at June 30, 2007 and December 31, 2006, respectively	1	
Additional paid-in capital	4,601	
Retained earnings	119	
Member s equity		4,598
Accumulated other comprehensive income	1,449	1,041
<b>Total stockholders / member s equity</b>	<b>6,170</b>	<b>5,639</b>
<b>Total Liabilities and Stockholders / Member s Equity</b>	<b>\$ 21,764</b>	<b>\$ 20,345</b>

See Notes to Consolidated Financial Statements

Index to Financial Statements

## SPECTRA ENERGY CORP

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In millions)

	Six Months	
	Ended June 30,	
	2007	2006
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 432	\$ 542
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	254	317
Gains on sales of investments in commercial and multi-family real estate		(171)
Gains on sales of equity investments and other assets		(7)
Impairment charges		20
Deferred income taxes	88	206
Minority interest	31	30
Equity in earnings of unconsolidated affiliates	(219)	(364)
Dividends received from unconsolidated affiliates	119	290
Contribution to company-sponsored pension plans		