

DUKE ENERGY CORP
Form 10-Q/A
August 10, 2004
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q/A

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

For Quarter Ended June 30, 2004

Commission File Number 1-4928

DUKE ENERGY CORPORATION

(Exact Name of Registrant as Specified in its Charter)

North Carolina
(State or Other Jurisdiction of Incorporation)

56-0205520
(IRS Employer Identification No.)

526 South Church Street

Charlotte, NC 28202-1803

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(Address of Principal Executive Offices)

(Zip code)

704-594-6200

(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 and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Securities Exchange Act of 1934). Yes ☒ No ☐

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

Number of shares of Common Stock, without par value, outstanding as of July 30, 2004	937,782,753
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Explanatory Note

This Amendment No. 1 to the Quarterly Report on Form 10-Q of Duke Energy Corporation for the quarter ended June 30, 2004 is being filed for the purpose of amending and revising Item 1 of Part I. This Form 10-Q/A is being filed in order to correct data input errors within the Consolidated Statements of Cash Flows. These revisions did not affect net cash provided by operating activities, net cash used in investing activities, net cash used in financing activities or cash and cash equivalents.

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DUKE ENERGY CORPORATION

FORM 10-Q FOR THE QUARTER ENDED JUNE 30, 2004

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SAFE HARBOR STATEMENT UNDER THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

Duke Energy Corporation's reports, filings and other public announcements may contain or incorporate by reference statements that do not directly or exclusively relate to historical facts. Such statements are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. You can typically identify forward-looking statements by the use of forward-looking words, such as "may," "will," "could," "project," "believe," "anticipate," "expect," "estimate," "continue," "potential," "plan," "forecast" and other similar words. Those statements are based on Energy's intentions, plans, expectations, assumptions and beliefs about future events and are subject to risks, uncertainties and other factors. Many of those factors are outside Duke Energy's control and could cause actual results to differ materially from the results expressed or implied by those forward-looking statements. Those factors include:

State, federal and foreign legislative and regulatory initiatives that affect cost and investment recovery, have an impact on rate structures, and affect the speed at and degree to which competition enters the electric and natural gas industries

The outcomes of litigation and regulatory investigations, proceedings or inquiries

Industrial, commercial and residential growth in Duke Energy's service territories

The weather and other natural phenomena

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

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General economic conditions, including any potential effects arising from terrorist attacks and any consequential hostilities or other hostilities

Changes in environmental and other laws and regulations to which Duke Energy and its subsidiaries are subject or other external factors over which Duke Energy has no control

The results of financing efforts, including Duke Energy's ability to obtain financing on favorable terms, which can be affected by various factors, including Duke Energy's credit ratings and general economic conditions

Lack of improvement or further declines in the market prices of equity securities and resultant cash funding requirements for Duke Energy's defined benefit pension plans

The level of creditworthiness of counterparties to Duke Energy's transactions

The amount of collateral required to be posted from time to time in Duke Energy's transactions

Growth in opportunities for Duke Energy's business units, including the timing and success of efforts to develop domestic and international power, pipeline, gathering, processing and other infrastructure projects

The performance of electric generation, pipeline and gas processing facilities

The extent of success in connecting natural gas supplies to gathering and processing systems and in connecting and expanding gas and electric markets

The effect of accounting pronouncements issued periodically by accounting standard-setting bodies and

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

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 Duke Energy has described. Duke Energy undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

DUKE ENERGY CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(In millions, except per-share amounts)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2004	2003	2004	2003
				(as Revised -
		(as Revised -		see Note 1)
		see Note 1)		
Operating Revenues				
Non-regulated electric, natural gas, natural gas liquids and other	\$ 3,453	\$ 3,394	\$ 6,909	\$ 7,406
Regulated electric	1,272	1,122	2,523	2,401
Regulated natural gas	635	636	1,617	1,515
Total operating revenues	5,360	5,152	11,049	11,322
Operating Expenses				
Natural gas and petroleum products purchased	2,594	2,664	5,626	6,156
Operation, maintenance and other	837	881	1,628	1,555
Fuel used in electric generation and purchased power	607	369	1,171	917
Depreciation and amortization	421	438	857	869
Property and other taxes	125	134	279	274
Total operating expenses	4,584	4,486	9,561	9,771
Gains on Sales of Investments in Commercial and Multi-Family Real Estate	62	9	121	11
(Losses) Gains on Sales of Other Assets, net	(11)	1	(349)	3
Operating Income	827	676	1,260	1,565
Other Income and Expenses				
Equity in earnings of unconsolidated affiliates	43	16	77	50
Gains on sales of equity investments		219		233
Other income and expenses, net	46	60	71	86

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Total other income and expenses	89	295	148	369
Interest Expense	337	325	693	651
Minority Interest Expense	41	50	79	100
Earnings From Continuing Operations Before Income Taxes	538	596	636	1,183
Income Tax Expense from Continuing Operations	133	195	166	390
Income From Continuing Operations	405	401	470	793
Discontinued Operations				
Net operating (loss) income, net of tax	(3)	17	4	20
Net gain (loss) on dispositions, net of tax	30	6	269	(2)
Income From Discontinued Operations	27	23	273	18
Income Before Cumulative Effect of Change in Accounting Principle	432	424	743	811
Cumulative Effect of Change in Accounting Principle, net of tax and minority interest				(162)
Net Income	432	424	743	649
Dividends and Premiums on Redemption of Preferred and Preference Stock	3	7	5	10
Earnings Available For Common Stockholders	\$ 429	\$ 417	\$ 738	\$ 639
Common Stock Data				
Weighted-average shares outstanding				
Basic	926	902	919	899
Diluted	928	903	921	900
Earnings per share (from continuing operations)				
Basic	\$ 0.43	\$ 0.44	\$ 0.50	\$ 0.87
Diluted	\$ 0.43	\$ 0.44	\$ 0.50	\$ 0.87
Earnings per share (from discontinued operations)				
Basic	\$ 0.03	\$ 0.02	\$ 0.30	\$ 0.02
Diluted	\$ 0.03	\$ 0.02	\$ 0.30	\$ 0.02
Earnings per share (before cumulative effect of change in accounting principle)				
Basic	\$ 0.46	\$ 0.46	\$ 0.80	\$ 0.89
Diluted	\$ 0.46	\$ 0.46	\$ 0.80	\$ 0.89
Earnings per share				
Basic	\$ 0.46	\$ 0.46	\$ 0.80	\$ 0.71
Diluted	\$ 0.46	\$ 0.46	\$ 0.80	\$ 0.71
Dividends per share	\$ 0.550	\$ 0.550	\$ 0.825	\$ 0.825

See Notes to Consolidated Financial Statements.

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DUKE ENERGY CORPORATION
CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In millions)

	June 30, 2004	December 31, 2003
	<u> </u>	<u> </u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 2,696	\$ 1,160
Receivables (net of allowance for doubtful accounts of \$223 at June 30, 2004 and \$280 at December 31, 2003)	2,982	2,888
Inventory	837	941
Assets held for sale	113	424
Unrealized gains on mark-to-market and hedging transactions	1,346	1,566
Other	604	694
	<u> </u>	<u> </u>
Total current assets	8,578	7,673
	<u> </u>	<u> </u>
Investments and Other Assets		
Investments in unconsolidated affiliates	1,331	1,398
Nuclear decommissioning trust funds	1,243	925
Goodwill	3,855	3,962
Notes receivable	244	260
Unrealized gains on mark-to-market and hedging transactions	1,632	1,857
Assets held for sale	692	1,444
Investments in residential, commercial and multi-family real estate (net of accumulated depreciation of \$28 at June 30, 2004 and \$32 at December 31, 2003)	1,228	1,331
Other	840	1,117
	<u> </u>	<u> </u>
Total investments and other assets	11,065	12,294
	<u> </u>	<u> </u>
Property, Plant and Equipment		
Cost	45,530	46,009
Less accumulated depreciation and amortization	12,800	12,139
	<u> </u>	<u> </u>
Net property, plant and equipment	32,730	33,870
	<u> </u>	<u> </u>
Regulatory Assets and Deferred Debits		
Deferred debt expense	317	275
Regulatory assets related to income taxes	1,175	1,152
Other	962	939
	<u> </u>	<u> </u>
Total regulatory assets and deferred debits	2,454	2,366
	<u> </u>	<u> </u>
Total Assets	\$ 54,827	\$ 56,203
	<u> </u>	<u> </u>

See Notes to Consolidated Financial Statements.

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DUKE ENERGY CORPORATION
CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In millions)

	June 30, 2004	December 31, 2003
LIABILITIES AND COMMON STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	\$ 2,112	\$ 2,317
Notes payable and commercial paper	437	130
Taxes accrued	398	14
Interest accrued	309	304
Liabilities associated with assets held for sale	44	651
Current maturities of long-term debt	1,535	1,200
Unrealized losses on mark-to-market and hedging transactions	1,147	1,283
Other	1,826	1,799
Total current liabilities	7,808	7,698
Long-term Debt , including debt to affiliates of \$258 at June 30, 2004 and \$876 at December 31, 2003	19,181	20,622
Deferred Credits and Other Liabilities		
Deferred income taxes	4,315	4,120
Investment tax credit	159	165
Unrealized losses on mark-to-market and hedging transactions	1,415	1,754
Liabilities associated with assets held for sale	737	737
Other	5,586	5,524
Total deferred credits and other liabilities	11,475	12,300
Commitments and Contingencies		
Minority Interests	1,674	1,701
Preferred and preference stock without sinking fund requirements	134	134
Common Stockholders' Equity		
Common stock, no par, 2 billion shares authorized; 938 million and 911 million shares outstanding at June 30, 2004 and December 31, 2003, respectively	10,492	9,519
Retained earnings	4,053	4,060
Accumulated other comprehensive income	10	169
Total common stockholders' equity	14,555	13,748
Total Liabilities and Common Stockholders' Equity	\$ 54,827	\$ 56,203

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See Notes to Consolidated Financial Statements.

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DUKE ENERGY CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In millions)

	Six Months Ended	
	June 30,	
	2004	2003
		(as Revised - see Note 1)
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 743	\$ 649
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization (including amortization of nuclear fuel)	943	972
Cumulative effect of change in accounting principle		162
Gains on sales of investments in commercial and multi-family real estate	(121)	(11)
Losses (gains) on sales of equity investments and other assets	64	(239)
Deferred income taxes	76	24
Purchased capacity levelization	100	97
(Increase) decrease in		
Net realized and unrealized mark-to-market and hedging transactions	150	(42)
Receivables	(50)	446
Inventory	104	(72)
Other current assets	171	(196)
Increase (decrease) in		
Accounts payable	(293)	(284)
Taxes accrued	452	487
Other current liabilities	(18)	208
Capital expenditures for residential real estate	(138)	(76)
Cost of residential real estate sold	80	50
Other, assets	(41)	(188)
Other, liabilities	120	(163)
Net cash provided by operating activities	2,342	1,824
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital and investment expenditures, net of refund	(1,318)	(1,413)
Net proceeds from the sales of equity investment and other assets, and sales of and collections on notes receivable	718	1,279
Proceeds from the sales of commercial and multi-family real estate	303	47
Other	(102)	(51)
Net cash used in investing activities	(399)	(138)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from the		
Issuance of long-term debt	112	1,707

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Issuance of common stock and common stock related to employee benefit plans	947	150
Payments for the redemption of		
Long-term debt	(1,138)	(1,427)
Guaranteed preferred beneficial interests in subordinated notes		(250)
Preferred stock of a subsidiary	(76)	
Notes payable and commercial paper	297	(710)
Distributions to minority interests	(703)	(1,484)
Contributions from minority interests	638	1,467
Dividends paid	(526)	(524)
Other	2	10
	<u> </u>	<u> </u>
Net cash used in financing activities	(447)	(1,061)
	<u> </u>	<u> </u>
Changes in cash and cash equivalents associated with assets held for sale	40	
	<u> </u>	<u> </u>
Net increase in cash and cash equivalents	1,536	625
Cash and cash equivalents at beginning of period	<u>1,160</u>	<u>857</u>
	<u> </u>	<u> </u>
Cash and cash equivalents at end of period	<u>\$ 2,696</u>	<u>\$ 1,482</u>
	<u> </u>	<u> </u>
Supplemental Disclosures		
Significant non-cash transactions:		
Non-cash proceeds related to sale of Asia-Pacific operations	\$ 838	\$
Dividends declared but not paid	258	249
Proceeds from remarketing of Equity Units for senior notes	875	

See Notes to Consolidated Financial Statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Basis of Presentation

Nature of Operations and Basis of Consolidation. Duke Energy Corporation (collectively with its subsidiaries, Duke Energy), is a leading energy company located in the Americas with a real estate subsidiary. The Consolidated Financial Statements include, after eliminating intercompany transactions and balances, the accounts of Duke Energy and all majority-owned subsidiaries, and those variable interest entities where Duke Energy is the primary beneficiary. The Consolidated Financial Statements also reflect Duke Energy's 12.5% undivided interest in the Catawba Nuclear Station.

These Consolidated Financial Statements reflect all normal recurring adjustments that are, in the opinion of management, necessary to fairly present Duke Energy's financial position and results of operations. Amounts reported in the interim Consolidated Statements of Operations are not necessarily indicative of amounts expected for the respective annual periods due to the effects of seasonal temperature variations on energy consumption, the timing of maintenance on electric generating units, changes in mark-to-market valuations, changing commodity prices and other factors. These Consolidated Financial Statements and other information included in this quarterly report should be read in conjunction with the Consolidated Financial Statements and Notes in Duke Energy's Form 10-K/A for the year ended December 31, 2003.

Use of Estimates. To conform with generally accepted accounting principles (GAAP) in the United States, management makes estimates and assumptions that affect the amounts reported in the financial statements and notes. Although these estimates are based on management's best available knowledge at the time, actual results could differ.

Income Tax Expense. The effective income tax rate was 25% for the three months and 26% for the six months ended June 30, 2004, compared to 33% in the prior year periods. The decreased rates were due primarily to the reversal of \$52 million of state and federal income tax reserves. These reserves were released in the second quarter of 2004 due to the resolution of various income tax positions taken by Duke Energy and changes in estimates.

Reclassifications and Revisions. In 2004, Duke Energy elected to change its business segments to present Crescent as a separate segment. In connection with this change, management determined that revisions were required to reclassify certain financial statement line items related to Crescent's activities. In Duke Energy's Quarterly Report on Form 10-Q for June 30, 2003, the cash outflows related to Crescent's purchases of commercial, residential and multi-family real estate were presented as a component of capital expenditures within cash flows from investing activities. The proceeds from the sales of these properties, as well as proceeds from the sales of legacy land, were shown as part of the reconciliation of net income to net cash flows from operating activities, and thus included in cash flows from operating activities.

Duke Energy has since determined that the cash inflows and outflows from Crescent's purchases and sales of commercial and multi-family properties, as well as the proceeds from the sales of legacy land, should be presented as a component of cash flows from investing activities. All cash inflows and outflows related to Crescent's residential properties should be presented on a net basis within cash flows from operating activities, whereas in past presentations, only the inflows were presented within cash flows from operating activities. As a result of the change, net cash provided by operating activities decreased by \$123 million from \$1,947 million to \$1,824 million and net cash used in investing activities decreased by \$123 million from \$261 million to \$138 million in the June 30, 2003 Consolidated Statement of Cash Flows.

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Also in Duke Energy's Quarterly Report on Form 10-Q for June 30, 2003, all proceeds from sales of real estate by Crescent were reported in revenues and the cost basis for all properties sold was included in operation and maintenance expenses in the Consolidated Statements of Operations. Consistent with the change in presentation noted

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above for the Consolidated Statements of Cash Flows, Duke Energy has determined that amounts related to the purchases and sales of commercial and multi-family real estate, as well as the sales proceeds and underlying cost of legacy land, should be presented in the Consolidated Statements of Operations as Gains on Sales of Investments in Commercial and Multi-Family Real Estate of \$9 million for the three months and \$11 million for the six months ended June 30, 2003, rather than presented in revenues, and operation and maintenance expenses. As a result of this change, total operating revenues decreased by \$38 million, from \$5,190 million to \$5,152 million, for the three months and \$40 million, from \$11,362 million to \$11,322 million, for the six months ended June 30, 2003, and total operating expenses decreased by \$29 million, from \$4,515 million to \$4,486 million, for the three months and \$29 million, from \$9,800 million to \$9,771 million, for the six months ended June 30, 2003.

Also included in the reclassified amounts are increases to both Non-Regulated Electric, Natural Gas, Natural Gas Liquids and Other revenues, and to Natural Gas and Petroleum Products Purchased of \$223 million for the three months and \$459 million for the six months ended June 30, 2003, related to the Field Services segment.

Some prior period amounts have been reclassified to conform to the presentation for the current period.

2. Earnings Per Common Share

Basic earnings per share are computed by dividing earnings available for common stockholders by the weighted-average number of common shares outstanding during the period. Diluted earnings per share are computed by dividing earnings available for common stockholders by the diluted weighted-average number of common shares outstanding during the period. Diluted earnings per share reflect the potential dilution that could occur if securities or other agreements to issue common stock which have met market price or other contingencies (such as stock options, equity units, stock-based performance unit awards, convertible debt and phantom stock awards) were exercised or converted into common stock. The following table reconciles the weighted-average shares outstanding to the diluted weighted-average shares outstanding.

Weighted-Average Shares Outstanding (in millions)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
Weighted-average shares outstanding	926	902	919	899
Potential dilution for the period	2	1	2	1
Diluted weighted-average shares outstanding	928	903	921	900

The increase in weighted-average shares outstanding for the three and six-month periods ended June 30, 2004, compared to the same periods in 2003, was due primarily to the issuance of shares in connection with the settlement of the forward purchase contract component of Duke Energy's Equity Units. For further information see Note 5.

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Options, restricted stock, performance and phantom stock awards to purchase approximately 26 million shares as of June 30, 2004 and 27 million shares as of June 30, 2003 were not included in potential dilution for the period in the above table because either the option exercise prices were greater than the average market price of the common shares during those periods, or performance measures related to the awards had not yet been met.

Duke Energy's \$750 million of Equity Units, which will result in an issuance of approximately 19 million shares, is not included in potential dilution for the period in the above table because their inclusion would be antidilutive.

Additionally, Duke Energy's \$770 million convertible debt issuance, which is potentially convertible into approximately 33 million shares, is not included in potential dilution for the period in the above table because the market price and other contingencies for issuance had not been met as of June 30, 2004 and June 30, 2003.

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3. Stock-Based Compensation

Duke Energy accounts for its stock-based compensation arrangements under the intrinsic value recognition and measurement principles of Accounting Principles Board Opinion (APB) No. 25, Accounting for Stock Issued to Employees, and Financial Accounting Standards Board (FASB) Interpretation No. 44, Accounting for Certain Transactions Involving Stock Compensation (an Interpretation of APB Opinion No. 25). The following table shows what earnings available for common stockholders, basic earnings per share and diluted earnings per share would have been if Duke Energy had applied the fair value recognition provisions of Statement of Financial Accounting Standards (SFAS) No. 123, Accounting for Stock-Based Compensation, and provisions of SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure (an amendment to FASB Statement No. 123), to all stock-based compensation awards.

Pro Forma Stock-Based Compensation (in millions, except per share amounts)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2004	2003	2004	2003
Earnings available for common stockholders, as reported	\$ 429	\$ 417	\$ 738	\$ 639
Add: stock-based compensation expense included in reported net income, net of related tax effects	3	3	6	5
Deduct: total stock-based compensation expense determined under fair value-based method for all awards, net of related tax effects	(5)	(11)	(12)	(18)
Pro forma earnings available for common stockholders, net of related tax effects	\$ 427	\$ 409	\$ 732	\$ 626
Earnings per share				
Basic as reported	\$ 0.46	\$ 0.46	\$ 0.80	\$ 0.71
Basic pro forma	\$ 0.46	\$ 0.45	\$ 0.79	\$ 0.70
Diluted as reported	\$ 0.46	\$ 0.46	\$ 0.80	\$ 0.71
Diluted pro forma	\$ 0.46	\$ 0.45	\$ 0.79	\$ 0.70

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Inventory is recorded at the lower of cost or market value, primarily using the average cost method.

Inventory (in millions)

	June 30, 2004	December 31, 2003
Materials and supplies	\$ 443	\$ 445
Natural gas and natural gas liquid products held in storage for transmission, processing, and sales commitments	224	299
Coal held for electric generation	87	87
Petroleum products	83	110
Total inventory	\$ 837	\$ 941

5. Debt and Credit Facilities

In February 2004, Duke Energy remarketed \$875 million of senior notes, due in 2006, underlying its Equity Units and reset the interest rate from 5.87% to 4.302%. As this action was contemplated in the original Equity Units issuance, the transaction had no immediate accounting implications. Subsequently, Duke Energy exchanged \$475 million of the remarketed senior notes for \$200 million of 4.37% senior unsecured notes due in 2009, and \$288 million of 5.5% senior unsecured notes due in 2014. In accordance with Emerging Issues Task Force (EITF) Issue No. 96-19, Debtors Accounting for a Modification or Exchange of Debt Instruments, the \$475 million of remarketed senior notes issued earlier at 4.302% was extinguished. This exchange transaction resulted in an approximate \$11 million loss, which was included in interest expense in the Consolidated Statement of Operations for the first quarter of 2004.

In May 2004, Duke Energy issued 22,449,000 shares of its common stock in the settlement of the forward purchase contract component of its Equity Units issued in March 2001. Duke Energy issued 35,000,000 Equity Units in March 2001 at \$25 per unit. Under the terms of the contract, the Equity Unit holders were required to purchase common stock at a settlement rate based on the current market price of Duke Energy's common stock at the time of settlement. The rate was 0.6414 shares of stock per Equity Unit.

In March 2004, Duke Energy redeemed the entire issue of its 7.20% debt due to an affiliate in 2037 for approximately \$350 million, in connection with the redemption of its Duke Energy Capital Trust I 7.20% Cumulative Quarterly Income Preferred Securities due 2037. As the securities were redeemed at par, security holders received \$25 per each note held, plus accrued and unpaid distributions to the redemption date.

In April 2004, approximately \$840 million of debt was retired (as a non-cash financing activity) as part of the sale of the Asia-Pacific operations. This does not include approximately \$50 million of Australian debt, which has been placed in trust and fully funded in connection with the closing of the sale transaction and will be repaid in September 2004. This trust is included in the Consolidated Financial Statements as Duke

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Energy is the primary beneficiary of the trust and, therefore, is required to consolidate the trust under provisions of FASB Interpretation No. 46 (FIN 46), Consolidation of Variable Interest Entities. The Asia-Pacific debt was classified as Current and Non-Current Liabilities Associated with Assets Held for Sale on the December 31, 2003 Consolidated Balance Sheet. Duke Energy completed the sale of the Asia-Pacific assets, which includes substantially all of Duke Energy's assets in Australia and New Zealand, to Alinta Ltd. on April 23, 2004.

In April 2004, Duke Capital LLC (Duke Capital) purchased \$101 million of its outstanding notes in the open market. These purchases included \$49 million of Duke Capital 5.50% senior notes due March 1, 2014 and \$52 million of Duke Capital 4.37% senior notes due March 1, 2009. The securities were redeemed at the then current market price plus accrued interest.

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In May 2004, Duke Energy redeemed its Series C 6.60% senior notes due in 2038, at a \$200 million face value. As the securities were redeemed at par, security holders received \$25 per each note held, plus accrued interest to the redemption date.

In June 2004, Duke Energy redeemed the entire issue of its 7.20% debt due to an affiliate in 2039 for approximately \$250 million, in connection with the redemption of its Duke Energy Capital Trust II 7.20% Trust Preferred Securities. As the securities were redeemed at par, security holders received \$25 per preferred security held, plus accrued and unpaid distributions to the redemption date.

In July 2004, Duke Energy announced that on August 31, 2004, it will redeem the entire issue of Duke Capital Financing Trust III 8³/₈% Trust Preferred Securities due August 31, 2029 with a face value of \$250 million. As the securities are being redeemed at par, security holders will receive \$25 per preferred security held, plus accrued and unpaid distributions to the redemption date. Additionally, Duke Energy plans to remarket \$750 million of its 4.32% senior notes, due in 2006, underlying its 8.00% Equity Units on August 11, 2004. Proceeds from the remarketed notes will be held by a collateral agent and used to purchase U.S. Treasury securities to satisfy the forward stock purchase contract component of the Equity Units in November 2004.

Credit Facilities Capacity and Restrictive Debt Covenants. During the six months ended June 30, 2004, credit facilities capacity was reduced by approximately \$860 million compared to December 31, 2003, primarily relating to the divested Australian operations. In addition, Duke Energy, Duke Capital, Duke Energy Field Services, LLC (DEFS), Westcoast Energy Inc. and Union Gas Limited renewed and replaced their credit facilities at lower amounts due to reduced need for surplus credit capacity. The credit facilities as of June 30, 2004 are included in the following table. The issuance of commercial paper, letters of credit and other borrowings reduces the amount available under the credit facilities.

Duke Energy's credit agreements contain various financial and other covenants. Failure to meet those covenants beyond applicable grace periods could result in accelerated due dates and/or termination of the agreements. As of June 30, 2004, Duke Energy was in compliance with those covenants. In addition, some credit agreements may allow for acceleration of payments or termination of the agreements due to nonpayment, or to the acceleration of other significant indebtedness of the borrower or some of its subsidiaries. None of the credit agreements contain material adverse change clauses or any covenants based on credit ratings.

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Credit Facilities Summary as of June 30, 2004 (in millions)

			Amounts Outstanding			
			Commercial	Letters of	Other	
<u>Expiration Date</u>	<u>Credit Facilities Capacity</u>	<u>Paper</u>	<u>Credit</u>	<u>Borrowings</u>	<u>Total</u>	
<u>Duke Energy</u>						
\$150 two-year bilateral						