KINDER MORGAN, INC.
Form 10-Q
August 05, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

F O R M 10-Q

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

For the quarterly period ended June 30, 2013

or

o 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: 001-35081

KINDER MORGAN, INC.
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	80-0682103 (I.R.S. Employer Identification No.)

1001 Louisiana Street, Suite 1000, Houston, Texas 77002
(Address of principal executive offices)(zip code)
Registrant's telephone number, including area code: 713-369-9000

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 þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, 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 þ No o

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 þ Accelerated filer o Non-accelerated filer o Smaller reporting company o

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

As of July 26, 2013, the registrant had 1,035,846,097 Class P shares outstanding.

KINDER MORGAN, INC. AND SUBSIDIARIES
TABLE OF CONTENTS

Kinder Morgan, Inc. and Subsidiaries

Company Abbreviations

BOSTCO	=	Battleground Oil Specialty Terminal Company LLC	KMGP	=	Kinder Morgan G.P., Inc.
Calnev	=	Calnev Pipe Line LLC	KMI	=	Kinder Morgan, Inc.
Copano	=	Copano Energy, L.L.C.	KMP	=	Kinder Morgan Energy Partners, L.P. and its consolidated subsidiaries
Credit Suisse	=	Credit Suisse Securities (USA) LLC	KMR	=	Kinder Morgan Management, LLC
Eagle Ford	=	Eagle Ford Gathering LLC	Plantation	=	Plantation Pipe Line Company
El Paso	=	El Paso LLC	SFPP	=	SFPP, L.P.
Elba Express	=	Elba Express Company, L.L.C.	Shell	=	Royal Dutch Shell plc
ELC	=	Elba Liquefaction Company, L.L.C.	Shell G&P	=	Shell US Gas & Power, LLC
EP	=	El Paso Corporation and its consolidated subsidiaries	SLC	=	Southern Liquefaction Company, L.L.C.
EPB	=	El Paso Pipeline Partners, L.P.	SLNG	=	Southern LNG Company, L.L.C.
EPNG	=	El Paso Natural Gas Company, L.L.C.	SNG	=	Southern Natural Gas Company, L.L.C.
EPPOC	=	El Paso Pipeline Partners Operating Company, L.L.C	Tallgrass	=	Tallgrass Development, LP (f/k/a Tallgrass Energy Partners, LP)
FEP	=	Fayetteville Express Pipeline LLC	TGP	=	Tennessee Gas Pipeline Company, L.L.C.
KinderHawk	=	KinderHawk Field Services LLC	UBS	=	UBS Securities LLC
KMEP	=	Kinder Morgan Energy Partners, L.P.	WYCO	=	WYCO Development L.L.C.

Unless the context otherwise requires, references to “we,” “us,” “our,” or “KMI” are intended to mean Kinder Morgan, Inc. and its consolidated subsidiaries.

Common Industry and Other Terms

AFUDC	=	allowance for funds used during construction	LIBOR	=	London Interbank Offered Rate
Bcf/d	=	billion cubic feet per day	LLC	=	limited liability company
CERCLA	=	Comprehensive Environmental Response, Compensation and Liability Act	LNG	=	liquefied natural gas
EBDA	=	Earnings before depreciation, depletion and amortization	MLP	=	master limited partnership
DD&A	=	Depreciation, depletion and amortization	MMcf/d	=	million cubic feet per day
DCF	=	distributable cash flow	Moody's	=	Moody's Investor Services
EPA	=	United States Environmental Protection Agency	NYMEX	=	New York Mercantile Exchange
FERC	=	Federal Energy Regulatory Commission	NYSE	=	New York Stock Exchange
FASB	=	Financial Accounting Standards Board	PRP	=	Potentially Responsible Party
Fitch	=	Fitch Ratings	S&P	=	Standard & Poor's Rating Services
FTC	=	Federal Trade Commission	SEC	=	United States Securities and Exchange Commission
GAAP	=	Generally Accepted Accounting Principles in the United States of America	WTI	=	West Texas Intermediate
			OTC	=	over-the-counter

When we refer to cubic feet measurements, all measurements are at a pressure of 14.73 pounds per square inch.

Kinder Morgan, Inc. Form 10-Q

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

KINDER MORGAN, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(In Millions, Except Per Share Amounts)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Revenues				
Natural gas sales	$944	$497	$1,681	$1,081
Services	1,519	1,033	3,080	1,794
Product sales and other	919	637	1,681	1,149
Total Revenues	3,382	2,167	6,442	4,024
Operating Costs, Expenses and Other				
Costs of sales	1,254	637	2,224	1,217
Operations and maintenance	643	387	1,062	693
Depreciation, depletion and amortization	442	333	854	607
General and administrative	183	501	323	630
Taxes, other than income taxes	102	69	200	119
Other income, net	(17)	(20)	(16)	(18)
Total Operating Costs, Expenses and Other	2,607	1,907	4,647	3,248
Operating Income	775	260	1,795	776
Other Income (Expense)				
Earnings from equity investments	93	72	194	137
Amortization of excess cost of equity investments	(9)	(2)	(18)	(4)
Interest expense, net	(427)	(291)	(829)	(470)
Gain on remeasurement of previously held equity interest in Eagle Ford to fair value (Note 2)	558	—	558	—
Gain on sale of investments in Express pipeline system (Note 2)	—	—	225	—
Other, net	16	7	18	8
Total Other Income (Expense)	231	(214)	148	(329)
Income from Continuing Operations Before Income Taxes	1,006	46	1,943	447
Income Tax Expense	(225)	(9)	(504)	(105)
Income from Continuing Operations	781	37	1,439	342
Discontinued Operations (Notes 1 and 2)				
Income from operations of KMP's FTC Natural Gas Pipelines disposal group, net of tax	—	47	—	97
	—	(327)	(2)	(755)

Loss on sale and the remeasurement of KMP's FTC Natural Gas Pipelines disposal group to fair value, net of tax				
Loss from Discontinued Operations, Net of Tax	—	(280)	(2)	(658)
Net Income (Loss)	781	(243)	1,437	(316)
Net (Income) Loss Attributable to Noncontrolling Interests	(504)	117	(868)	211
Net Income (Loss) Attributable to Kinder Morgan, Inc.	$277	$(126)	$569	$(105)

KINDER MORGAN, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME (Continued)
(In Millions, Except Per Share Amounts)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Class P Shares				
Basic and Diluted Earnings (Loss) Per Common Share From Continuing Operations	$0.27	$(0.11)	$0.55	$0.09
Basic and Diluted Loss Per Common Share From Discontinued Operations	—	(0.04)	—	(0.23)
Total Basic and Diluted Earnings (Loss) Per Common Share	$0.27	$(0.15)	$0.55	$(0.14)
Class A Shares				
Basic and Diluted (Loss) Earnings Per Common Share From Continuing Operations		$(0.13)		$0.05
Basic and Diluted Loss Per Common Share From Discontinued Operations		(0.04)		(0.23)
Total Basic and Diluted Loss Per Common Share		$(0.17)		$(0.18)
Basic Weighted-Average Number of Shares Outstanding				
Class P Shares	1,036	320	1,036	245
Class A Shares		522		529
Diluted Weighted-Average Number of Shares Outstanding				
Class P Shares	1,038	843	1,038	776
Class A Shares		522		529
Dividends Per Common Share Declared for the period	$0.40	$0.35	$0.78	$0.67

The accompanying notes are an integral part of these consolidated financial statements.

KINDER MORGAN, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In Millions)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Kinder Morgan, Inc.				
Net income (loss)	$277	$(126)	$569	$(105)
Other comprehensive income (loss), net of tax				
Change in fair value of derivatives utilized for hedging purposes (net of tax expense of $(16), $(56), $(10), and $(34), respectively)	36	89	20	55
Reclassification of change in fair value of derivatives to net income (net of tax benefit (expense) of $2, $3, $3, and $(3), respectively)	(1)	(3)	(5)	6
Foreign currency translation adjustments (net of tax benefit of $12, $7, $19, and $-, respectively)	(28)	(13)	(45)	(1)
Adjustments to pension and other postretirement benefit plan liabilities (net of tax expense of $(1), $(8), $(1), and $(8), respectively)	1	13	—	13
Total other comprehensive income (loss)	8	86	(30)	73
Total comprehensive income (loss)	285	(40)	539	(32)
Noncontrolling Interests				
Net income (loss)	504	(117)	868	(211)
Other comprehensive income (loss), net of tax				
Change in fair value of derivatives utilized for hedging purposes (net of tax expense of $(5), $(15), $(2), and $(10), respectively)	26	139	11	87
Reclassification of change in fair value of derivatives to net income (net of tax benefit (expense) of $1, $-, $1, and $(1), respectively)	(2)	(5)	(4)	9
Foreign currency translation adjustments (net of tax benefit of $4, $2 $6, and $-, respectively)	(26)	(18)	(42)	(1)
Adjustments to pension and other postretirement benefit plan liabilities (net of tax benefit of $- , $-, $-, and $-, respectively)	—	—	—	—
Total other comprehensive (loss) income	(2)	116	(35)	95
Total comprehensive income (loss)	502	(1)	833	(116)
Total				
Net income (loss)	781	(243)	1,437	(316)
Other comprehensive income (loss), net of tax				
Change in fair value of derivatives utilized for hedging purposes (net of tax expense of $(21), $(71), $(12), and $(44), respectively)	62	228	31	142
Reclassification of change in fair value of derivatives to net income (net of tax benefit (expense) of $3, $3, $4, and $(4), respectively)	(3)	(8)	(9)	15
Foreign currency translation adjustments (net of tax benefit of $16, $9, $25, and $-, respectively)	(54)	(31)	(87)	(2)
Adjustments to pension and other postretirement benefit plan liabilities (net of tax expense of $(1), $(8), $(1), and $(8), respectively)	1	13	—	13
Total other comprehensive income (loss)	6	202	(65)	168
Total comprehensive income (loss)	$787	$(41)	$1,372	$(148)

The accompanying notes are an integral part of these consolidated financial statements.

KINDER MORGAN, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In Millions, Except Share and Per Share Amounts)
(Unaudited)

	June 30, 2013	December 31, 2012 (a)
ASSETS		
Current Assets		
Cash and cash equivalents – KMI (Note 14)	$141	$71
Cash and cash equivalents – KMP and EPB (Note 14)	876	643
Accounts receivable, net	1,488	1,333
Inventories	428	374
Fair value of derivative contracts	67	63
Assets held for sale	32	298
Deferred income taxes	358	539
Other current assets	382	353
Total current assets	3,772	3,674
Property, plant and equipment, net (Note 14)	34,599	30,996
Investments	6,085	5,804
Goodwill (Note 14)	24,493	23,632
Other intangibles, net	2,485	1,171
Fair value of derivative contracts	402	709
Deferred charges and other assets	2,284	2,259
Total Assets	$74,120	$68,245
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Current portion of debt – KMI (Note 14)	$1,901	$1,153
Current portion of debt – KMP and EPB (Note 14)	2,063	1,248
Accounts payable	1,326	1,248
Accrued interest	539	513
Fair value of derivative contracts	83	80
Accrued other current liabilities	1,421	986
Total current liabilities	7,333	5,228
Long-term liabilities and deferred credits		
Long-term debt		
Outstanding – KMI (Note 14)	7,726	9,148
Outstanding – KMP and EPB (Note 14)	21,519	20,161
Preferred interest in general partner of KMP	100	100
Debt fair value adjustments	2,237	2,591
Total long-term debt	31,582	32,000
Deferred income taxes	4,113	4,071
Fair value of derivative contracts	158	133
Other long-term liabilities and deferred credits	2,395	2,713
Total long-term liabilities and deferred credits	38,248	38,917

Total Liabilities	$45,581	$44,145

KINDER MORGAN, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (Continued)
(In Millions, Except Share and Per Share Amounts)
(Unaudited)

	June 30, 2013	December 31, 2012 (a)
Commitments and contingencies (Notes 3 and 11)		
Stockholders' Equity		
Class P shares, $0.01 par value, 2,000,000,000 shares authorized, 1,035,769,430 and 1,035,668,596 shares, respectively, issued and outstanding	$10	$10
Preferred stock, $0.01 par value, 10,000,000 shares authorized, none outstanding	—	—
Additional paid-in capital	14,945	14,917
Retained deficit	(1,153)	(943)
Accumulated other comprehensive loss	(148)	(118)
Total Kinder Morgan, Inc.'s stockholders' equity	13,654	13,866
Noncontrolling interests	14,885	10,234
Total Stockholders' Equity	28,539	24,100
Total Liabilities and Stockholders' Equity	$74,120	$68,245

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(a) Retrospectively adjusted as discussed in Note 2.

The accompanying notes are an integral part of these consolidated financial statements.

KINDER MORGAN, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Millions)
(Unaudited)

	Six Months Ended June 30,	
	2013	2012
Cash Flows From Operating Activities		
Net income (loss)	$1,437	$(316)
Adjustments to reconcile net income (loss) to net cash provided by operating activities		
Depreciation, depletion and amortization	854	614
Deferred income taxes	378	(79)
Amortization of excess cost of equity investments	18	4
(Gain) loss from the remeasurement of net assets to fair value, net of tax (Note 2)	(558)	755
Gain from the sale of investments in Express pipeline system (Note 2)	(225)	—
Non-cash compensation expense on settlement of EP stock awards	—	87
Earnings from equity investments	(194)	(179)
Distributions from equity investments	199	168
Proceeds from termination of interest rate swap agreements	96	53
Pension contributions in excess of expense	(59)	(13)
Changes in components of working capital, net of the effects of acquisitions		
Accounts receivable	7	(95)
Inventories	(50)	(84)
Other current assets	(37)	(5)
Accounts payable	(181)	4
Accrued interest	14	(22)
Accrued other current liabilities	(78)	106
Rate reparations, refunds and other litigation reserve adjustments	177	20
Other, net	(81)	(5)
Net Cash Provided by Operating Activities	1,717	1,013
Cash Flows From Investing Activities		
Acquisition of EP, net of $6,581 cash acquired (Note 2)	—	(4,970)
Acquisitions of other assets and investments, net of $29 cash acquired (Note 2)	(286)	(30)
Capital expenditures	(1,345)	(817)
Proceeds from sale of investments in Express pipeline system	403	—
Proceeds from sale of investments in BBPP Holdings Ltda	88	—
Repayments from related party	10	20
Contributions to investments	(93)	(101)
Sale or casualty of property, plant and equipment, investments and other net assets, net of removal costs	23	32
Distributions from equity investments in excess of cumulative earnings	78	113
Other, net	22	(37)
Net Cash Used in Investing Activities	(1,100)	(5,790)
Cash Flows From Financing Activities		
Issuance of debt - KMI	989	6,795
Payment of debt - KMI	(1,673)	(1,112)

Issuance of debt - KMP and EPB	4,858	3,438
Payment of debt - KMP and EPB	(3,863)	(3,197)
Debt issue costs	(12)	(93)
Cash dividends	(779)	(446)
Repurchase of warrants	(131)	(110)
Contributions from noncontrolling interests	1,077	285
Distributions to noncontrolling interests	(761)	(513)
Other, net	1	(4)
Net Cash (Used in) Provided by Financing Activities	(294)	5,043
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(20)	(2)
Net Increase in Cash and Cash Equivalents	303	264
Cash and Cash Equivalents, beginning of period	714	411
Cash and Cash Equivalents, end of period	$1,017	$675

The accompanying notes are an integral part of these consolidated financial statements.

KINDER MORGAN, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)
(In Millions)
(Unaudited)

	Six Months Ended June 30,	
	2013	2012
Noncash Investing and Financing Activities		
Net assets and liabilities acquired by the issuance of shares and warrants	$—	$11,464
Assets acquired by the assumption or incurrence of liabilities	$1,490	$—
Assets acquired or liabilities settled by contributions from noncontrolling interests	$3,733	$296
Increase in accrual for capital expenditures	$144	$304
Supplemental Disclosures of Cash Flow Information		
Cash paid during the period for interest (net of capitalized interest)	$812	$488
Net cash paid during the period for income taxes	$71	$189

The accompanying notes are an integral part of these consolidated financial statements.

KINDER MORGAN, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(In Millions)
(Unaudited)

	Six Months Ended June 30, 2013						
	Par value of common shares	Additional paid-in capital	Retained deficit	Accumulated other comprehensive loss	Stockholders' equity attributable to KMI	Non-controlling interests	Total
Beginning Balance at December 31, 2012	$10	$14,917	$(943)	$(118)	$13,866	$ 10,234	$24,100
Warrants repurchased		(131)			(131)		(131)
Warrants exercised		1			1		1
Conversions of EP Trust I Preferred securities		2			2		2
Amortization of restricted shares		10			10		10
Impact from equity transactions of KMP, EPB and KMR		146			146	(231)	(85)
Net income (loss)			569		569	868	1,437
Distributions					—	(761)	(761)
Contributions					—	4,810	4,810
Cash dividends			(779)		(779)		(779)
Other comprehensive loss				(30)	(30)	(35)	(65)
Ending Balance at June 30, 2013	$10	$14,945	$(1,153)	$(148)	$13,654	$ 14,885	$28,539

	Six Months Ended June 30, 2012						
	Par value of common shares	Additional paid-in capital	Retained deficit	Accumulated other comprehensive loss	Stockholders' equity attributable to KMI	Non-controlling interests	Total
Beginning Balance at December 31, 2011	$8	$3,431	$(3)	$(115)	$3,321	$ 5,247	$8,568
Issuance of shares for EP acquisition	3	10,598			10,601		10,601
Issuance of warrants for EP acquisition		863			863		863
Acquisition of EP non-controlling interests					—	3,797	3,797
Warrants repurchased		(110)			(110)		(110)
Amortization of restricted shares		6			6		6
Impact from equity transactions of KMP		19			19	(31)	(12)

Net loss			(105)		(105)	(211)	(316)
Distributions					—	(513)	(513)
Contributions					—	586	586
Cash dividends			(446)		(446)		(446)
Other			(2)		(2)		(2)
Other comprehensive income				73	73	95	168
Ending Balance at June 30, 2012	$11	$14,807	$(556)	$(42)	$14,220	$8,970	$23,190

The accompanying notes are an integral part of these consolidated financial statements.

11

KINDER MORGAN, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. General

Organization

Kinder Morgan, Inc. is the largest midstream and the third largest energy company in North America with a combined enterprise value of approximately $115 billion. We own an interest in or operate approximately 82,000 miles of pipelines and 180 terminals. Our pipelines transport natural gas, refined petroleum products, crude oil, CO_2 and other products, and our terminals store petroleum products and chemicals, and handle such products as ethanol, coal, petroleum coke and steel. We are also the leading producer and transporter of CO_2 for enhanced oil recovery projects in North America.

Effective on May 25, 2012, we completed the acquisition of all of the outstanding shares of EP. As a result, we own a 41% limited partner interest and the 2% general partner interest in EPB, as well as certain natural gas pipeline assets.

We also own the general partner and approximately 10% of the limited partner interests of KMP, one of the largest publicly-traded pipeline limited partnerships in America.

Our common stock trades on the NYSE under the symbol “KMI.”

KMR is a Delaware limited liability company. KMGP, the general partner of KMP and a wholly-owned subsidiary of ours, owns all of KMR’s voting shares. KMR, pursuant to a delegation of control agreement, has been delegated, to the fullest extent permitted under Delaware law, all of KMGP’s power and authority to manage and control the business and affairs of KMP, subject to KMGP’s right to approve certain transactions.

Basis of Presentation

We have prepared our accompanying unaudited consolidated financial statements under the rules and regulations of the SEC. These rules and regulations conform to the accounting principles contained in the FASB’s Accounting Standards Codification. Under such rules and regulations, we have condensed or omitted certain information and notes normally included in financial statements prepared in conformity with the Codification. We believe, however, that our disclosures are adequate to make the information presented not misleading.

Our accompanying unaudited consolidated financial statements reflect normal adjustments, and also recurring adjustments that are, in the opinion of our management, necessary for a fair statement of our financial results for the interim periods, and certain amounts from prior periods have been reclassified to conform to the current presentation. Interim results are not necessarily indicative of results for a full year; accordingly, you should read these consolidated financial statements in conjunction with our consolidated financial statements and related notes included in our Annual Report on Form 10-K for the year ended December 31, 2012 (2012 Form 10-K).

Our accounting records are maintained in United States dollars, and all references to dollars are United States dollars, except where stated otherwise. Canadian dollars are designated as C$. Our consolidated financial statements include our accounts and those of our majority-owned subsidiaries as well as the accounts of KMP, EPB and KMR. Investments in jointly-owned operations in which we hold a 50% or less interest (other than KMP, EPB and

KMR, because we have the ability to exercise significant control over their operating and financial policies) are accounted for under the equity method. All significant intercompany transactions and balances have been eliminated.

Notwithstanding the consolidation of KMP and EPB, and their respective subsidiaries, into our financial statements, we are not liable for, and our assets are not available to satisfy, the obligations of KMP and EPB, and/or their respective subsidiaries, and vice versa, except as discussed in Note 11, "—Other Contingencies." Responsibility for payments of obligations reflected in our, KMP or EPB's financial statements is a legal determination based on the entity that incurs the liability.

KMP’s FTC Natural Gas Pipelines Disposal Group - Discontinued Operations

Effective November 1, 2012, we sold KMP’s (i) Kinder Morgan Interstate Gas Transmission natural gas pipeline system; (ii) Trailblazer natural gas pipeline system; (iii) Casper and Douglas natural gas processing operations; and (iv) 50% equity investment in the Rockies Express natural gas pipeline system to Tallgrass for approximately $1.8 billion in cash (before selling costs), or $3.3 billion including KMP’s share of joint venture debt. In this report, we refer to this combined group of assets as KMP’s FTC Natural Gas Pipelines disposal group. For more information about the presentation of KMP’s FTC Natural Gas Pipelines disposal group as discontinued operations, see Note 2 “Summary of Significant Accounting Policies—Basis of Presentation” to our consolidated financial statements included in our 2012 Form 10-K.

Goodwill

We evaluate goodwill for impairment on May 31 of each year. For this purpose, we have seven reporting units as follows: (i) Products Pipelines—KMP (excluding associated terminals); (ii) Products Pipelines Terminals—KMP (evaluated separately from Products Pipelines—KMP for goodwill purposes); (iii) Natural Gas Pipelines Regulated; (iv) Natural Gas Pipelines Non—Regulated; (v) CO_2—KMP; (vi) Terminals—KMP; and (vii) Kinder Morgan Canada—KMP. During the quarter ended June 30, 2013, the Natural Gas Pipelines Non-Regulated reporting unit was created to include the non-regulated businesses KMP acquired from Copano on May 1, 2013 as well as other non-regulated businesses that were historically part of the former Natural Gas Pipelines reporting unit (now the Natural Gas Pipelines Regulated reporting unit). Goodwill was allocated between these two reporting units based on the relative fair values of the reporting units. There were no impairment charges resulting from our May 31, 2013 impairment testing, and no event indicating an impairment has occurred subsequent to that date.

The fair value of each reporting unit was determined based on a market approach utilizing an average dividend/distribution yield of comparable companies. The value of each reporting unit was determined on a stand-alone basis from the perspective of a market participant and represented the price estimated to be received in a sale of the unit as a whole in an orderly transaction between market participants at the measurement date.

Earnings per Share

On June 30, 2013, basic earnings per common share is computed based on the weighted-average number of common shares outstanding during each period. Diluted earnings per common share is computed based on the weighted-average number of common shares outstanding during each period, increased by the assumed conversion of securities convertible into common stock, for which the effect of conversion would be dilutive. For the three and six months ended June 30, 2013, our warrants and convertible trust preferred securities are antidilutive and, accordingly, are excluded from the determination of diluted earnings per share.

On December 26, 2012, the remaining series of our Class A, Class B and Class C shares were fully converted and as a result, only our Class P common stock was outstanding as of December 31, 2012.

For the three and six months ended June 30, 2012, earnings per share was calculated using the two-class method. Earnings were allocated to each class of common stock based on the amount of dividends paid in the current period for each class of stock plus an allocation of the undistributed earnings or excess distributions over earnings to the extent that each security participates in earnings or excess distributions over earnings. For the investor retained stock, the allocation of undistributed earnings or excess distributions over earnings was in direct proportion to the maximum number of Class P shares into which it could convert.

For the Class P diluted per share computations, total net income attributable to Kinder Morgan, Inc. was divided by the adjusted weighted-average shares outstanding during the period, including all dilutive potential shares. This included the Class P shares into which the investor retained stock was convertible. The number of Class P shares on a fully-converted basis was the same before and after any conversion of our investor retained stock. Each time one Class P share was issued upon conversion of investor retained stock, the number of Class P shares went up by one, and the number of Class P shares into which the investor retained stock was convertible went down by one. Accordingly, there was no difference between Class P basic and diluted earnings per share because the conversion of Class A, Class B, and Class C shares into Class P shares did not impact the number of Class P shares on a fully-converted basis. Commencing with the acquisition of EP, dilutive potential shares also included the Class P shares issuable in connection with the warrants and the trust preferred securities (see Note 4). As no securities were convertible into Class A shares, the basic and diluted earnings per share computations for Class A shares were the same. For the three and six months ended June 30, 2012, our warrants and convertible trust preferred securities were antidilutive and, accordingly, were excluded from the determination of diluted earnings per share.

The following tables set forth the computation of basic and diluted earnings per share from continuing operations for the three and six months ended June 30, 2012 (in millions, except per share amounts):

	Three Months Ended June 30, 2012 (Loss) Income from Continuing Operations Available to Shareholders			
	Class P	Class A	Participating Securities (a)	Total
Income from continuing operations				$37
Less: income from continuing operations attributable to noncontrolling interests				(128)
Loss from continuing operations attributable to KMI				(91)
Dividends paid in the period	$86	$128	$12	(226)
Excess distributions over earnings	(121)	(196)	—	$(317)
(Loss) income from continuing operations attributable to shareholders	$(35)	$(68)	$12	$(91)
Basic loss per share from continuing operations				
Basic weighted-average number of shares outstanding	320	522	N/A	
Basic loss per common share from continuing operations(b)	$(0.11)	$(0.13)	N/A	
Diluted loss per share from continuing operations				
Loss from continuing operations attributable to shareholders and assumed conversions(c)	$(91)	$(68)	N/A	
Diluted weighted-average number of shares	843	522	N/A	
Diluted loss per common share from continuing operations(b)	$(0.11)	$(0.13)	N/A	

	Six Months Ended June 30, 2012 Income from Continuing Operations Available to Shareholders			
	Class P	Class A	Participating Securities (a)	Total
Income from continuing operations				$342
Less: income from continuing operations attributable to noncontrolling interests				(272)
Income from continuing operations attributable to KMI				70
Dividends paid in the period	$141	$280	$25	(446)
Excess distributions over earnings	(119)	(256)	(1)	$(376)
Income from continuing operations attributable to shareholders	$22	$24	$24	$70
Basic earnings per share from continuing operations				
Basic weighted-average number of shares outstanding	245	529	N/A	
Basic earnings per common share from continuing operations(b)	$0.09	$0.05	N/A	
Diluted earnings per share from continuing operations				
Income from continuing operations attributable to shareholders and assumed conversions(c)	$70	$24	N/A	

Diluted weighted-average number of shares	776	529	N/A
Diluted earnings per common share from continuing operations(b)	$0.09	$0.05	N/A

The following tables set forth the computation of total basic and diluted earnings per share for the three and six months ended June 30, 2012 (in millions, except per share amounts):

	Three Months Ended June 30, 2012			
	Net (Loss) Income Available to Shareholders			
	Class P	Class A	Participating Securities (a)	Total
Net loss attributable to KMI				$(126)
Dividends paid in the period	$86	$128	$12	(226)
Excess distributions over earnings	(134)	(218)	—	$(352)
Net (loss) income attributable to shareholders	$(48)	$(90)	$12	$(126)
Basic loss per share				
Basic weighted-average number of shares outstanding	320	522	N/A	
Basic loss per common share(b)	$(0.15)	$(0.17)	N/A	
Diluted loss per share				
Net loss attributable to shareholders and assumed conversions(c)	$(126)	$(90)	N/A	
Diluted weighted-average number of shares	843	522	N/A	
Diluted loss per common share(b)	$(0.15)	$(0.17)	N/A	

	Six Months Ended June 30, 2012			
	Net (Loss) Income Available to Shareholders			
	Class P	Class A	Participating Securities (a)	Total
Net loss attributable to KMI				$(105)
Dividends paid in the period	$141	$280	$25	(446)
Excess distributions over earnings	(175)	(375)	(1)	$(551)
Net (loss) income attributable to shareholders	$(34)	$(95)	$24	$(105)
Basic loss per share				
Basic weighted-average number of shares outstanding	245	529	N/A	
Basic loss per common share(b)	$(0.14)	$(0.18)	N/A	
Diluted loss per share				
Net loss attributable to shareholders and assumed conversions(c)	$(105)	$(95)	N/A	
Diluted weighted-average number of shares	776	529	N/A	
Diluted loss per common share(b)	$(0.14)	$(0.18)	N/A	

(a) Participating securities included Class B shares, Class C shares, and unvested restricted stock awards issued to non-senior management employees that contained rights to dividend equivalents in the case of the restricted shares. Our Class B and Class C shares were entitled to participate in our earnings, only to the extent of cash distributions made to them. As a result, no earnings in excess of dividends received were allocated to the Class B and Class C shares in our determination of basic and diluted earnings per share.

(b) The Class A shares earnings per share as compared to the Class P shares earnings per share were reduced due to the sharing of economic benefits (including dividends) amongst the Class A, B, and C shares. Class A, B and C shares owned by Richard Kinder, the sponsor investors, the original shareholders, and other management were referred to as "investor retained stock," and were convertible into a fixed number of Class P shares. In the aggregate, our investor retained stock was entitled to receive a dividend per share on a fully-converted basis equal to the dividend per share on our common stock. The conversion of shares of investor retained stock into Class P shares did not increase our total fully-converted shares outstanding, impact the aggregate dividends we paid or the dividends we paid per share on our Class P common stock.

(c) For the diluted earnings per share calculation, total net income attributable to each class of common stock was divided by the adjusted weighted-average shares outstanding during the period, including all dilutive potential shares.

2. Acquisitions and Divestitures

Copano Energy, L.L.C. Acquisition

Effective May 1, 2013, KMP closed its previously announced acquisition of Copano. KMP acquired all of Copano's outstanding units for a total purchase price of approximately $5.2 billion (including assumed debt and all other assumed liabilities). The transaction was a 100% unit for unit transaction with an exchange ratio of 0.4563 of KMP's common units for each Copano common unit. KMP issued 43,371,210 of its common units valued at $3,733 million as consideration for the Copano acquisition (based on the $86.08 closing market price of a KMP common unit on the NYSE on the May 1, 2013 issuance date).

KMP accounted for its acquisition of Copano under the acquisition method of accounting, and accordingly, measured the consideration paid to Copano unitholders, the acquired identifiable tangible and intangible assets, and the assumed liabilities at their acquisition date fair values. Also, due to the fact that KMP's acquisition included the remaining 50% interest in Eagle Ford that it did not already own, KMP remeasured its existing 50% equity investment in Eagle Ford to its fair value as of the acquisition date, resulting in the recognition of a $558 million pre-tax non-cash gain reported separately within "Other Income (Expense)."
The preliminary purchase price allocation related to the Copano acquisition is as follows (in millions). KMP's evaluation of the assigned fair values is ongoing and subject to adjustment:

Preliminary Purchase Price Allocation:		
Current assets (including cash acquired of $29)	$217	
Property, plant and equipment	2,753	
Investments	448	
Goodwill	1,123	
Other intangibles, net	1,350	
Other assets	12	
Total assets	5,903	
Less: Fair value of previously held 50% interest in Eagle Ford Gathering, LLC	(704	)
Total assets acquired	5,199	
Current liabilities	(207	)
Other liabilities	(7	)
Long-term debt	(1,252	)
KMP common unit consideration	$3,733	

The "Goodwill" intangible asset amount represents the future economic benefits expected to be derived from this acquisition that are not assignable to other individually identifiable, separately recognizable assets acquired. KMP believes the primary items that generated the goodwill are the value of the synergies created by expanding its natural gas gathering and refined product transportation operations. This goodwill is not deductible for tax purposes and is subject to an impairment test at least annually. The "Other intangibles, net" asset amount represents the fair value of acquired customer contracts and agreements, which are currently being amortized over an estimated remaining useful life of 25 years.

Copano provides comprehensive services to natural gas producers, including natural gas gathering, processing, treating and natural gas liquids fractionation. Copano owns an interest in or operates approximately 6,900 miles of pipelines with 2.7 Bcf/d of natural gas transportation capacity, and also owns nine natural gas processing plants with more than 1 Bcf/d of natural gas processing capacity and 315 MMcf/d of natural gas treating capacity. Its operations are located primarily in Texas, Oklahoma and Wyoming. Most of the acquired assets will be included in the Natural Gas Pipelines business segment.

Impact of KMP’s Acquisition of Copano on KMI’s Income Taxes

Our accounting policy is to apply the look-through method of recording deferred taxes on the outside book tax basis differences in our investments without regard to non-tax deductible goodwill. As a result of the goodwill recorded by KMP for its Copano acquisition, KMI’s deferred tax liability must be adjusted for the portion of its outside basis difference associated with KMP’s underlying goodwill. Since the KMP acquisition of Copano was accounted for under the acquisition method of accounting, we recognized an adjustment to goodwill of $256 million related to this transaction.

KMI Acquisition of EP

Effective on May 25, 2012, we acquired all of the outstanding shares of EP for an aggregate consideration of approximately $23 billion (excluding assumed debt). In total, EP shareholders received $11.6 billion in cash, 330 million KMI Class P shares with a fair value of $10.6 billion as of May 24, 2012 and 505 million KMI warrants with a fair value of $863 million as of May 24, 2012. The warrants have an exercise price of $40 per share and a 5-year term.

We accounted for the EP acquisition using the acquisition method of accounting which requires, among other things, that assets acquired and liabilities assumed be recognized on the balance sheet at their acquisition date fair values. During the three months ended June 30, 2013, management completed its purchase accounting valuation estimates and, as a result, retrospectively adjusted the valuations of certain liabilities with a corresponding increase to goodwill as of the acquisition date. The retrospective adjustments amounted to approximately $60 million and primarily related to revisions of estimates related to certain environmental obligations, sales and use tax liabilities, and deferred income taxes.

Goldsmith Landreth Unit

On June 1, 2013, KMP acquired certain oil and gas properties, rights, and related assets in the Permian Basin of West Texas from Legado Resources LLC for approximately $285 million (before working capital adjustments). KMP also assumed $18 million of liabilities. The acquisition of the Goldsmith Landreth San Andres oil field unit includes more than 6,000 acres located in Ector County, Texas, and based on KMP's measurement of fair values for all of the identifiable tangible and intangible assets acquired and liabilities assumed, KMP assigned the $285 million amount to "Property, plant and equipment, net." The acquired oil field is in the early stages of CO_2 flood development and includes a residual oil zone along with a classic San Andres waterflood. The field currently produces approximately 1,250 barrels of oil per day, and as part of the transaction, KMP obtained a long-term supply contract for up to 150 MMcf/d of CO_2. The acquisition complements KMP's existing oil and gas producing assets in the Permian Basin, and the acquired assets are included as part of the CO_2—KMP business segment.

Pro Forma Information

The following summarized unaudited pro forma consolidated income statement information for the three and six months ended June 30, 2013 and 2012, assumes that the EP, Copano and the Goldsmith Landreth Unit acquisitions had occurred as of January 1, 2012. We prepared the following summarized unaudited pro forma financial results for comparative purposes only. The summarized unaudited pro forma financial results may not be indicative of the results that would have occurred if these acquisitions had been completed as of January 1, 2012 or the results that will be attained in the future. Amounts presented below are in millions, except for the per share amounts:

	Pro Forma			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Revenues	$3,569	$2,995	$7,147	$6,043
Income (Loss) from Continuing Operations	$755	$(234)	$1,401	$31
Income (Loss) from Discontinued Operations, Net of Tax	$—	$1,767	$(2)	$1,410
Net Income	$755	$1,533	$1,399	$1,441
Net Income (Loss) Attributable to Noncontrolling Interests	$(494)	$80	$(855)	$164
Net Income Attributable to Kinder Morgan, Inc.	$261	$1,613	$544	$1,605
Diluted Earnings per Common Share				

Class P Shares	$0.25	$1.55	$0.52	$1.55
Class A Shares		$1.53		$1.50

KMP's FTC Natural Gas Pipelines Disposal Group – Discontinued Operations

We began accounting for KMP's FTC Natural Gas Pipelines disposal group as discontinued operations in the first quarter of 2012 (prior to our sale announcement, we included the disposal group in the Natural Gas Pipelines business segment). During that quarter, the disposal group's net assets were remeasured to reflect the initial assessment of its fair value as a result of the

FTC mandated sale requirement, and based on additional information gained in the sale process during the second quarter of 2012, we recognized an additional loss amount from KMP's fair value remeasurement. For the six months ended June 30, 2012, we recognized a combined $649 million non-cash loss from remeasurement, and we reported this loss amount separately as "Loss on sale and the remeasurement of FTC Natural Gas Pipelines disposal group to fair value" within the discontinued operations section of our accompanying consolidated statement of income. As a result of our remeasurement of net assets to fair value and the sale of net assets, we recognized a combined $829 million loss for the year ended December 31, 2012.

KMP and Tallgrass trued up the final consideration for the sale of our FTC Natural Gas Pipelines disposal group in the first quarter of 2013, and based on this true up, we recognized an additional $2 million loss. We reported this loss amount separately as "Loss on sale and the remeasurement of FTC Natural Gas Pipelines disposal group to fair value" within the discontinued operations section of our accompanying consolidated statement of income for the six months ended June 30, 2013, and except for this loss amount, no other financial results from the operations of KMP's FTC Natural Gas Pipelines disposal group were recorded in the first six months of 2013.

Summarized financial information for KMP's FTC Natural Gas Pipelines disposal group is as follows (in millions):

	Three Months Ended June 30, 2012	Six Months Ended June 30, 2012
Operating revenues	$62	$133
Operating expenses	(34)	(71)
Depreciation and amortization	—	(7)
Earnings from equity investments	20	42
Interest income and Other, net	—	1
Income from operations of KMP's FTC Natural Gas Pipelines disposal group, net of tax	$48	$98

Express Pipeline System

Effective March 14, 2013, KMP sold both its one-third equity ownership interest in the Express pipeline system and its subordinated debenture investment in Express to Spectra Energy Corp. for $403 million in cash. We recorded a pre-tax gain of $225 million with respect to this transaction in the first quarter of 2013, and we reported this gain amount separately within the "Other Income (Expense)" section of our accompanying consolidated statements of income for the six months ended June 30, 2013