

PHELPS DODGE CORP
Form 10-Q
August 13, 2002

Table of Contents

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarter ended June 30, 2002

Commission file number 1-82

PHELPS DODGE CORPORATION

(a New York corporation)

13-1808503

(I.R.S. Employer Identification No.)

One North Central Avenue, Phoenix, AZ 85004

Registrant's telephone number: (602) 366-8100

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

Number of Common Shares outstanding at August 12, 2002: 88,906,857 shares.

TABLE OF CONTENTS

Part I. Financial Information

Item 1. Financial Statements

STATEMENT OF CONSOLIDATED OPERATIONS

CONSOLIDATED BALANCE SHEET

CONSOLIDATED STATEMENT OF CASH FLOWS

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

FINANCIAL DATA BY BUSINESS SEGMENT

NOTES TO CONSOLIDATED FINANCIAL INFORMATION

REVIEW BY INDEPENDENT ACCOUNTANTS

Report of Independent Accountants

Item 2. Management's Discussion and Analysis

RESULTS OF OPERATIONS

RESULTS OF PHELPS DODGE MINING COMPANY

RESULTS OF PHELPS DODGE INDUSTRIES

OTHER MATTERS RELATING TO THE STATEMENT OF CONSOLIDATED OPERATIONS

CHANGES IN FINANCIAL CONDITION

Part II. Other Information

Item 1. Legal Proceedings

Item 4. Submission of Matters to a Vote of Security Holders

Item 6. Exhibits and Reports on Form 8-K

Signatures

Index to Exhibits

EX-4.9

EX-4.10

EX-11

EX-12

EX-15

Table of Contents

-i-

PHELPS DODGE CORPORATION

Quarterly Report on Form 10-Q

For the Quarter Ended June 30, 2002

Table of Contents

	Page
<hr/>	
Part I. Financial Information	
Item 1. Financial Statements (unaudited)	
Statement of Consolidated Operations	1
Consolidated Balance Sheet	2
Consolidated Statement of Cash Flows	3
Consolidated Statement of Shareholders' Equity	4
Financial Data by Business Segment	5
Notes to Consolidated Financial Information	6
Review by Independent Accountants	14
Report of Independent Accountants	15
Item 2. Management's Discussion and Analysis	

Results of Operations	16
Results of Phelps Dodge Mining Company	18
Results of Phelps Dodge Industries	20
Other Matters Relating to the Statement of Consolidated Operations	21
Changes in Financial Condition	21
Part II. Other Information	
Item 1. Legal Proceedings	24
Item 4. Submission of Matters to a Vote of Security Holders	24
Item 6. Exhibits and Reports on Form 8-K	25
Signatures	26
Index to Exhibits	27

Table of Contents

-1-

PHELPS DODGE CORPORATION AND SUBSIDIARIES

Part I. Financial Information

Item 1. Financial Statements

STATEMENT OF CONSOLIDATED OPERATIONS

(Unaudited; in millions except per share data)

	Second Quarter		Six Months Ended June 30,	
	2002	2001	2002	2001
Sales and other operating revenues	\$966.8	1,063.5	1,885.3	2,164.2
Operating costs and expenses				
Cost of products sold	807.2	897.5	1,576.0	1,831.2
Depreciation, depletion and amortization	106.1	121.3	211.7	237.8
Selling and general administrative expense	29.8	31.5	62.0	63.7
Exploration and research expense	9.2	17.1	17.9	31.9
Special items and provisions, net (see Note 2)	30.3	13.3	26.5	(17.6)
	982.6	1,080.7	1,894.1	2,147.0

Operating income (loss)

(15.8) (17.2) (8.8) 17.2

Interest expense

(49.2) (55.5) (102.0) (108.9)

Capitalized interest

0.6

Miscellaneous income and expense, net

(0.3) 10.9 1.7 14.6

Loss before taxes, minority interests, equity in net earnings (loss) of affiliated companies and cumulative effect of accounting change

(65.3) (61.8) (109.1) (76.5)

Benefit (provision) for taxes on income (see Note 8)

30.8 (47.4) 70.5 (14.1)

Minority interests in consolidated subsidiaries

(2.5) (1.3) (3.7) (2.9)

Equity in net earnings (loss) of affiliated companies

0.6 1.1 (0.8)

Loss before cumulative effect of accounting change

(36.4) (110.5) (41.2) (94.3)

Cumulative effect of accounting change, net of taxes of \$10.1 in 2002

(22.9) (2.0)

Net loss

\$(36.4) (110.5) (64.1) (96.3)

Preferred stock dividends
(2.4) (2.4)
Loss applicable to common shares
\$(38.8) (110.5) (66.5) (96.3)

Average number of shares outstanding basic
80.6 78.5 79.6 78.5

**Basic loss per share before cumulative effect
of accounting change**
\$(0.48) (1.41) (0.55) (1.20)
Cumulative effect of accounting change
(0.29) (0.03)

Basic loss per share
\$(0.48) (1.41) (0.84) (1.23)

**Average number of shares outstanding
diluted**
80.6 78.5 79.6 78.5

**Diluted loss per share before cumulative
effect of accounting change**
\$(0.48) (1.41) (0.55) (1.20)

Cumulative effect of accounting change
(0.29) (0.03)

Diluted loss per share
\$(0.48) (1.41) (0.84) (1.23)

See Notes to Consolidated Financial Information.

Table of Contents

-2-

CONSOLIDATED BALANCE SHEET

(Unaudited; in millions except par value data)

	June 30, 2002	December 31, 2001
Assets		
Cash and cash equivalents	\$870.3	386.9
Accounts receivable, net	415.2	398.8
Inventories and supplies	566.3	602.1
Prepaid expenses and other current assets	133.4	116.4
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Current assets	1,985.2	1,504.2
Investments and long-term receivables	130.3	105.3
Net property, plant and equipment	5,500.9	5,665.6
Non-current deferred income taxes	58.3	56.3
Other assets and deferred charges	239.8	287.4
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	\$7,914.5	7,618.8
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Liabilities

Short-term debt

\$51.6 59.3

Current portion of long-term
debt

135.7 269.7

Accounts payable and accrued
expenses

659.5 673.7

Dividends payable

2.4

Accrued income taxes

10.9 11.5

Current liabilities

860.1 1,014.2

Long-term debt

2,467.5 2,522.0

Deferred income taxes

444.3 441.8

Other liabilities and deferred
credits

859.4 874.2

4,631.3 4,852.2

**Minority interests in
consolidated subsidiaries**

62.4 59.4

Shareholders equity

Common shares, par value
\$6.25; 200.0 shares authorized;
88.7 outstanding in 2002 and
78.7 outstanding in 2001
554.5 491.9
Preferred shares, par value
\$1.00; 6.0 shares authorized; 2.0
outstanding in 2002
2.0
Capital in excess of par value
1,544.5 1,016.8
Retained earnings
1,431.1 1,497.6
Accumulated other
comprehensive loss
(305.7) (292.7)
Other
(5.6) (6.4)

3,220.8 2,707.2

\$7,914.5 7,618.8

See Notes to Consolidated Financial Information.

Table of Contents

-3-

CONSOLIDATED STATEMENT OF CASH FLOWS

(Unaudited; in millions)

	Six Months Ended June 30,	
	2002	2001
Operating activities		
Net loss		
\$(64.1) (96.3)		
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation, depletion and amortization	211.7	237.8
Deferred income taxes	(9.1)	7.6
Equity earnings (loss) net of dividends received	1.2	1.3
Special items and provisions	60.7	(21.4)
Changes in current assets and liabilities:		
Accounts receivable, net	(24.2)	(19.1)
Proceeds from securitization of accounts receivable	4.7	
Inventories	37.0	(1.2)
Supplies	(0.3)	(0.4)
Prepaid expenses and other current assets	(9.9)	(7.5)
Deferred income taxes	0.1	0.1
Interest payable	(7.5)	5.8
Other accounts payable	(29.7)	0.1
Accrued income taxes	1.5	(7.9)
Other accrued expenses	(15.6)	(20.0)
Other adjustments, net	23.2	(1.6)

Net cash provided by operating
activities
179.7 77.3

Investing activities

Capital outlays
(48.9) (146.1)
Capitalized interest
(0.6)
Investment in subsidiaries and
other
(1.9) (47.0)
Proceeds from asset dispositions
24.6 1.1
Other investing
(28.7) (2.2)

Net cash used in investing
activities
(54.9) (194.8)

Financing activities

Increase in debt
16.8 1,175.2
Payment of debt
(246.7) (887.2)
Common dividends
(49.2)
Issuance of shares
592.2 0.4
Other, net
(3.7) (7.7)

Net cash provided by financing
activities
358.6 231.5

**Increase in cash and cash
equivalents**
483.4 114.0
**Cash and cash equivalents at
beginning of period**
386.9 25