

PHELPS DODGE CORP
Form 10-Q
May 15, 2002

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**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 March 31, 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 85004-4416

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 May 10, 2002: 78,717,316 shares.

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For the Quarter Ended March 31, 2002

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PHELPS DODGE CORPORATION AND SUBSIDIARIES

Part I. Financial Information

Item 1. Financial Statements

STATEMENT OF CONSOLIDATED OPERATIONS

(Unaudited; in millions except per share data)

	First Quarter	
	2002	2001
Sales and other operating revenues	\$918.5	1,100.7
Operating costs and expenses		
Cost of products sold		
768.8	933.7	
Depreciation, depletion and amortization		
105.6	116.5	
Selling and general administrative expense		
32.2	32.2	
Exploration and research expense		
8.7	14.8	
Special items and provisions (see Note 2)		
(3.8)	(30.9)	
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911.5	1,066.3	
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Operating income		
7.0	34.4	
Interest expense		
(52.8)	(53.4)	
Capitalized interest		

0.6
 Miscellaneous income and
 expense, net
 2.0 3.7

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

(43.8) (14.7)
 Benefit for taxes on income
 (see Note 8)
 39.7 33.3
 Minority interests in
 consolidated subsidiaries
 (1.2) (1.6)
 Equity in net earnings (loss) of
 affiliated companies
 0.5 (0.8)

**Income (loss) before
 cumulative effect of
 accounting change**

(4.8) 16.2
 Cumulative effect of
 accounting change, net of taxes
 of \$10.1 in 2002
 (22.9) (2.0)

Net income (loss)

\$(27.7) 14.2

**Average number of shares
 outstanding basic**

78.5 78.5

**Basic earnings (loss) per
 share before cumulative
 effect of accounting change**

\$(0.06) 0.21
Cumulative effect of
accounting change
(0.29) (0.03)

**Basic earnings (loss) per
share**
\$(0.35) 0.18

**Average number of shares
outstanding diluted**
78.5 78.8

**Diluted earnings (loss) per
share before cumulative
effect of accounting change**
\$(0.06) 0.21
Cumulative effect of
accounting change
(0.29) (0.03)

**Diluted earnings (loss) per
share**
\$(0.35) 0.18

See Notes to Consolidated Financial Information.

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CONSOLIDATED BALANCE SHEET

(Unaudited; in millions)

	March 31, 2002	December 31, 2001
Assets		
Cash and cash equivalents	\$454.3	386.9
Accounts receivable, net	440.0	398.8
Inventories and supplies	562.3	602.1
Prepaid expenses and other current assets	126.5	116.4
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Current assets	1,583.1	1,504.2
Investments and long-term receivables	107.3	105.3
Property, plant and equipment, net	5,573.5	5,665.6
Non-current deferred income taxes	68.5	56.3
Other assets and deferred charges	237.3	287.4
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	\$7,569.7	7,618.8
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Liabilities

Short-term debt
 \$54.5 59.3
 Current portion of long-term
 debt
 261.3 269.7
 Accounts payable and accrued
 expenses
 640.8 673.7
 Accrued income taxes
 12.8 11.5

Current liabilities
 969.4 1,014.2
 Long-term debt
 2,515.2 2,522.0
 Deferred income taxes
 451.0 441.8
 Other liabilities and deferred
 credits
 895.6 874.2

4,831.2 4,852.2

**Minority interests in
 consolidated subsidiaries**
 59.6 59.4

**Common shareholders
 equity**

Common shares, par value
 \$6.25; 200.0 shares
 authorized; 78.7 outstanding in
 2002 and 2001
 492.0 491.9
 Capital in excess of par value
 1,017.4 1,016.8
 Retained earnings

1,469.9 1,497.6
Accumulated other
comprehensive loss
(294.0) (292.7)
Other
(6.4) (6.4)

2,678.9 2,707.2

\$7,569.7 7,618.8

See Notes to Consolidated Financial Information

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CONSOLIDATED STATEMENT OF CASH FLOWS

(Unaudited; in millions)

	First Quarter	
	2002	2001
Operating activities		
Net income (loss)		
\$(27.7)	14.2	
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation, depletion and amortization	105.6	116.5
Deferred income taxes	(2.2)	(18.3)
Equity earnings (loss) net of dividends received	(0.5)	1.3
Special items and provisions (see Note 2)	29.7	(28.9)
Changes in current assets and liabilities:		
Accounts receivable	(50.4)	(63.9)
Proceeds from sale of accounts receivable	4.7	
Inventories	40.9	(26.5)
Supplies	(1.4)	(1.8)
Prepaid expenses	(10.7)	(5.7)
Deferred income taxes	0.2	
Interest payable	43.3	34.1
Other accounts payable	(50.4)	10.1
Accrued income taxes	2.9	(14.5)
Other accrued expenses	(27.3)	(7.9)
Other adjustments, net	53.7	(18.8)

Net cash provided by (used in)
operating activities
110.2 (9.9)

Investing activities

Capital outlays
(21.4) (77.1)
Capitalized interest
(0.6)
Investment in subsidiaries and
other
(1.4) (46.4)
Proceeds from asset dispositions
and other, net
(1.4) 1.4

Net cash used in investing
activities
(24.2) (122.7)

Financing activities

Increase in debt
6.8 175.9
Payment of debt
(24.3) (9.6)
Common dividends
(39.4)
Other, net
(1.1) (0.1)

Net cash provided by (used in)
financing activities
(18.6) 126.8

**Increase (decrease) in cash
and cash equivalents**

67.4 (5.8)

**Cash and cash equivalents at
beginning of period**

386.9 250.0

**Cash and cash equivalents at
end of period**

\$454.3 244.2

See Notes to Consolidated Financial Information

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CONSOLIDATED STATEMENT OF COMMON SHAREHOLDERS' EQUITY

(Unaudited; in millions)

	Common Shares		Capital in Excess of Par Value	Retained Earnings	Accumulated		Common Shareholders' Equity
	Number of Shares	At Par Value			Other Comprehensive Income (Loss)	Other	
Balance at December 31, 2001	78.7	\$491.9	\$1,016.8	\$1,497.6	\$(292.7)	\$(6.4)	\$2,707.2
Stock options exercised	0.2	0.2					
Restricted shares issued, net	0.1	0.4	0.5				
Comprehensive loss:							
Net loss		(27.7)	(27.7)				
Other comprehensive loss, net of tax:							
Translation adjustment		(4.6)	(4.6)				
Net gain on derivative instruments		3.5	3.5				
Unrealized loss on securities		(0.2)	(0.2)				
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Other comprehensive loss		(1.3)					