

PHELPS DODGE CORP
Form 10-Q
April 29, 2005

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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, 2005

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

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

Number of Common Shares outstanding at April 27, 2005: 96,882,340 shares.

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PHELPS DODGE CORPORATION

Quarterly Report on Form 10-Q

For the Quarter Ended March 31, 2005

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PHELPS DODGE CORPORATION AND SUBSIDIARIES

Part I. Financial Information

Item 1. Financial Statements**PHELPS DODGE CORPORATION****STATEMENT OF CONSOLIDATED OPERATIONS**

(Unaudited; in millions except per share data)

	First Quarter	
	2005	2004
Sales and other operating revenues	\$ 2,066.5	1,597.0
Operating costs and expenses		
Cost of products sold (exclusive of items shown separately below)	1,322.9	1,098.4
Depreciation, depletion and amortization	129.4	124.9
Selling and general administrative expense	47.3	38.5
Exploration and research expense	18.8	13.6
Special items and provisions, net (see Note 3)	(0.9)	6.8
	1,517.5	1,282.2
Operating income	549.0	314.8
Interest expense	(23.7)	(39.0)
Capitalized interest	0.8	0.1
Early debt extinguishment costs		(22.4)
Miscellaneous income and expense, net	18.1	2.2
Income before taxes, minority interests in consolidated subsidiaries and equity in net earnings (losses) of affiliated companies	544.2	255.7
Provision for taxes on income	(131.2)	(6.2)
Minority interests in consolidated subsidiaries	(27.0)	(63.6)
Equity in net earnings (losses) of affiliated companies	0.7	(0.2)
Net income	386.7	185.7
Preferred stock dividends	(3.4)	(3.4)
Net income applicable to common shares	\$ 383.3	182.3
Weighted average number of common shares outstanding basic	95.7	91.7
Basic earnings per common share	\$ 4.00	1.99
Weighted average number of common shares outstanding diluted	100.9	97.9

Diluted earnings per common share	\$ 3.83	1.90
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See Notes to Consolidated Financial Information.

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PHELPS DODGE CORPORATION**CONSOLIDATED BALANCE SHEET**

(Unaudited; in millions except per share prices)

	March 31, 2005	December 31, 2004
Assets		
Current assets:		
Cash and cash equivalents	\$ 1,398.0	1,200.1
Accounts receivable, less allowance for doubtful accounts (2005 - \$16.4; 2004 - \$17.4)	978.1	761.5
Mill and leach stockpiles	28.0	26.2
Inventories	406.7	392.1
Supplies	200.1	192.7
Prepaid expenses and other current assets	63.5	46.0
Deferred income taxes	44.5	43.1
Current assets	3,118.9	2,661.7
Investments and long-term receivables	135.5	120.7
Property, plant and equipment, net	5,285.5	5,318.9
Long-term mill and leach stockpiles	132.0	131.0
Deferred income taxes	47.2	61.8
Goodwill	103.5	103.5
Intangible assets, net	5.3	5.3
Other assets and deferred charges	195.3	191.2
	\$ 9,023.2	8,594.1
Liabilities		
Current liabilities:		
Short-term debt	\$ 30.3	78.8
Current portion of long-term debt	45.8	45.9
Accounts payable and accrued expenses	961.1	972.1
Dividends payable	3.4	3.4
Accrued income taxes	104.7	67.8
Current liabilities	1,145.3	1,168.0
Long-term debt	970.7	972.2
Deferred income taxes	457.4	448.4
Other liabilities and deferred credits	1,115.5	1,107.3
	3,688.9	3,695.9

Commitments and contingencies (see Notes 5, 6 and 8)

Minority interests in consolidated subsidiaries	581.8	555.1
Shareholders equity		
Common shares, par value \$6.25; 200.0 shares authorized; 96.8 outstanding (2004 - 95.9) after deducting 9.0 shares (2004 - 9.9) held in treasury, at cost	605.1	599.5
Cumulative preferred shares, par value \$1.00; 6.0 shares authorized; 2.0 outstanding in 2005 and 2004	2.0	2.0
Capital in excess of par value	1,961.4	1,906.4
Retained earnings	2,599.2	2,239.9
Accumulated other comprehensive loss	(377.4)	(384.2)
Other	(37.8)	(20.5)
	4,752.5	4,343.1
	\$ 9,023.2	8,594.1

See Notes to Consolidated Financial Information.

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PHELPS DODGE CORPORATION**CONSOLIDATED STATEMENT OF CASH FLOWS**

(Unaudited; in millions)

	Three Months Ended March 31,	
	2005	2004
Operating activities		
Net income	\$ 386.7	185.7
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion and amortization	129.4	124.9
Deferred income tax provision	24.4	(32.3)
Equity in net earnings (losses) of affiliated companies, net of dividends received	(0.1)	1.3
Special items and provisions	(0.9)	11.3
Early debt extinguishment costs		22.4
Minority interests in consolidated subsidiaries	27.0	63.6
Changes in current assets and liabilities:		
Accounts receivable	(137.0)	(216.3)
Sale (repayment) of securitized accounts receivable	(85.0)	
Mill and leach stockpiles	(1.8)	5.1
Inventories	(17.3)	9.4
Supplies	(8.0)	(1.3)
Prepaid expenses	(17.7)	(25.3)
Interest payable	15.2	20.0
Other accounts payable	(2.8)	67.5
Accrued income taxes	38.0	29.2
Other accrued expenses	(30.1)	(8.1)
Other operating, net	(5.9)	(0.5)
Net cash provided by operating activities	314.1	256.6
Investing activities		
Capital outlays	(68.2)	(46.5)
Capitalized interest	(0.8)	(0.1)
Investments in subsidiaries and other, net of cash received and acquired	(0.1)	(0.2)
Proceeds from asset dispositions	1.2	1.1
Other investing, net	(3.2)	3.3
Net cash used in investing activities	(71.1)	(42.4)
Financing activities		
Proceeds from issuance of debt		149.8
Payment of debt	(49.0)	(499.2)

Common dividends	(24.0)	
Preferred dividends	(3.4)	(3.4)
Issuance of shares, net	31.3	151.6
Debt issue costs		(1.6)
Other financing, net		(38.4)
Net cash used in financing activities	(45.1)	(241.2)
Increase (decrease) in cash and cash equivalents	197.9	(27.0)
Increase at beginning of 2004 from fully consolidating El Abra and Candelaria		28.3
Cash and cash equivalents at beginning of period	1,200.1	683.8
Cash and cash equivalents at end of period	\$ 1,398.0	685.1

See Notes to Consolidated Financial Information.

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PHELPS DODGE CORPORATION**CONSOLIDATED STATEMENT OF SHAREHOLDERS EQUITY**

(Unaudited; in millions)

	Common Shares		Preferred Shares		Capital in Excess of Par Value	Accumulated Other			Shareholders Equity
	Number of Shares	At Par Value	Number of Shares	At Par Value		Retained Earnings	Comprehensive Loss*	Other	
Balance at December 31, 2004	95.9	\$ 599.5	2.0	\$ 2.0	\$ 1,906.4	\$ 2,239.9	\$ (384.2)	\$ (20.5)	\$ 4,343.1
Stock options exercised	0.7	4.4			37.4				41.8
Restricted shares issued/cancelled, net	0.2	1.3			18.6			(17.3)	2.6
Common shares purchased		(0.1)			(1.0)				(1.1)
Dividends on preferred shares						(3.4)			(3.4)
Dividends on common shares						(24.0)			(24.0)
Comprehensive income (loss):									
Net income						386.7			386.7
Other comprehensive income (loss), net of tax:									
Translation adjustment							(9.5)		(9.5)
Net gain on derivative instruments							1.0		1.0
Other investment adjustments							0.5		0.5
Unrealized gains on securities							3.0		3.0
Minimum pension liability							11.8		11.8
Other comprehensive income							6.8		6.8
Comprehensive income									393.5

**Balance at March 31,
2005**

96.8 \$ 605.1 2.0 \$ 2.0 \$ 1,961.4 \$ 2,599.2 \$ (377.4) \$(37.8) \$ 4,752.5

* As of March 31, 2005, this balance comprised \$(217.8) million of cumulative minimum pension liability adjustments, \$(181.3) million of cumulative translation adjustments and \$(0.2) million of cumulative other investment adjustments; partially offset by \$19.8 million of cumulative unrealized gains on securities and \$2.1 million of cumulative unrealized gains on derivative instruments.

See Notes to Consolidated Financial Information.

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PHELPS DODGE CORPORATION**FINANCIAL DATA BY BUSINESS SEGMENT**

(Unaudited; in millions)

	U.S. Mines					South American Mines				
	Morenci	Bagdad	Sierrita	Miami/ Bisbee	Chino/ Cobre	Tyrone	Candelaria/ Ojos del Salado	Cerro Verde	El Abra	Primary Molybdenum
First Quarter 2005										
Sales and other operating revenues:										
Unaffiliated customers			0.4				121.9	16.5	72.2	476.8
Intersegment	227.0	156.5	207.9	9.5	85.7	30.1	32.0	51.6	80.6	
Depreciation, depletion and amortization	15.1	7.8	3.9	0.9	5.3	4.0	9.9	5.9	33.4	8.9
Operating income (loss) before special items and provisions	86.2	84.4	134.5	1.1	17.7	1.3	75.4	36.0	44.5	86.6
Special items and provisions	(0.3)				(0.6)	(4.2)				
Operating income (loss)	85.9	84.4	134.5	1.1	17.1	(2.9)	75.4	36.0	44.5	86.6
Interest income					0.6		0.8	0.8		0.1
Interest expense									(2.3)	
Benefit (provision) for taxes on income							(18.3)	(6.8)	(14.6)	
Minority interests in consolidated subsidiaries							(6.6)	(5.7)	(13.3)	
Equity in net earnings (losses) of affiliated companies				(0.1)						
			0.2	0.8			0.3			

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Equity basis investments										
Assets at March 31	921.7	437.3	318.6	101.0	482.9	225.4	953.8	560.1	964.5	876.3
Expenditures for segment assets	(3.9)	5.1	2.9	(0.1)	4.8	0.5	3.9	29.7	2.0	1.7

First Quarter 2004*

Sales and other operating revenues:										
Unaffiliated customers					0.1		86.3	16.6	99.2	150.0
Intersegment	210.9	80.3	90.5	8.8	36.7	27.5	72.4	51.6	74.3	
Depreciation, depletion and amortization	18.1	5.9	3.3	1.2	2.5	3.0	13.1	8.2	31.6	7.3
Operating income (loss) before special items and provisions	77.9	24.9	30.0	(0.7)	15.0	2.4	68.8	37.8	74.6	15.6
Special items and provisions										
Operating income (loss)	77.9	24.9	30.0	(0.7)	15.0	2.4	68.8	37.8	74.6	15.6
Interest income					0.3	&nb				