

PHELPS DODGE CORP  
Form 10-Q  
October 29, 2003

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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 September 30, 2003

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

Number of Common Shares outstanding at October 27, 2003: 89,345,792 shares.

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**PHELPS DODGE CORPORATION**

**Quarterly Report on Form 10-Q**

**For the Quarter Ended September 30, 2003**

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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)

	Third Quarter		Nine Months Ended September 30,	
	2003	2002	2003	2002
		(As Restated)*		(As Restated)*
<b>Sales and other operating revenues</b>	\$1,031.1	941.2	2,971.3	2,826.5
<b>Operating costs and expenses</b>				
Cost of products sold (exclusive of items shown separately below)	825.0	790.6	2,419.3	2,361.0
Depreciation, depletion and amortization	103.1	101.9	311.9	307.9
Selling and general administrative expense	34.6	26.8	103.1	88.8
Exploration and research expense	12.2	10.7	34.7	28.6
Special items and provisions, net (see Note 5)	9.4	23.2	9.6	49.7
	984.3	953.2	2,878.6	2,836.0
<b>Operating income (loss)</b>	46.8	(12.0)	92.7	(9.5)
Interest expense	(36.9)	(41.4)	(109.9)	(143.4)
Capitalized interest	0.2		0.4	
Early debt extinguishment costs (see Note 6)		(31.3)		(31.3)
Miscellaneous income (expense), net	2.1	0.9	15.3	2.6
	12.2	(83.8)	(1.5)	(181.6)
<b>Income (loss) before taxes, minority interests, equity in net earnings of affiliated companies and cumulative effect of accounting change</b>	12.2	(83.8)	(1.5)	(181.6)
Benefit (provision) for taxes on income (see Note 10)	(12.0)	31.3	(33.9)	95.8
Minority interests in consolidated subsidiaries	(1.1)	(2.0)	(5.1)	(6.0)
Equity in net earnings of affiliated companies	0.6	0.8	1.6	1.9
	(0.3)	(53.7)	(38.9)	(89.9)
<b>Loss before cumulative effect of accounting change</b>	(0.3)	(53.7)	(38.9)	(89.9)
Cumulative effect of accounting change, net of tax of \$(1.3) in 2003 and \$10.1 in 2002			8.4	(22.9)
	\$ (0.3)	(53.7)	(30.5)	(112.8)
<b>Net loss</b>	\$ (0.3)	(53.7)	(30.5)	(112.8)
Preferred stock dividends	(3.3)	(3.3)	(10.1)	(5.7)
	\$ (3.6)	(57.0)	(40.6)	(118.5)
<b>Loss applicable to common shares</b>	\$ (3.6)	(57.0)	(40.6)	(118.5)
<b>Average number of common shares outstanding basic</b>	88.7	88.6	88.6	82.6

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<b>Basic loss per common share before cumulative effect of accounting change</b>	\$ (0.04)	(0.64)	(0.55)	(1.15)
Cumulative effect of accounting change			0.09	(0.28)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>Basic loss per common share</b>	\$ (0.04)	(0.64)	(0.46)	(1.43)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>Average number of common shares outstanding diluted**</b>	88.7	88.6	88.6	82.6
<b>Diluted loss per common share before cumulative effect of accounting change</b>	\$ (0.04)	(0.64)	(0.55)	(1.15)
Cumulative effect of accounting change			0.09	(0.28)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>Diluted loss per common share**</b>	\$ (0.04)	(0.64)	(0.46)	(1.43)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

\* Refer to Note 2 to Consolidated Financial Information.

\*\* Diluted loss per share would have been anti-dilutive if based on fully diluted shares adjusted to reflect the assumed conversion of mandatory convertible preferred shares to common shares and stock option exercises.  
See Notes to Consolidated Financial Information

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**CONSOLIDATED BALANCE SHEET**

(Unaudited; in millions except per share prices)

	<b>September 30, 2003</b>	<b>December 31, 2002</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 438.3	349.8
Accounts receivable, less allowance for doubtful accounts (2003 - \$15.2; 2002 - \$14.1)	480.6	391.1
Mill and leach stockpiles	26.0	48.9
Inventories	378.6	398.5
Supplies	142.5	142.8
Prepaid expenses and other current assets	23.6	26.5
Deferred income taxes	57.5	70.6
	<hr/>	<hr/>
Current assets	1,547.1	1,428.2
Investments and long-term receivables	142.7	132.3
Property, plant and equipment, net (see Note 3)	4,677.8	4,813.7
Long-term mill and leach stockpiles	79.6	64.3
Deferred income taxes	7.7	11.0
Goodwill	99.0	90.7
Intangible assets (see Note 3)	327.8	345.9
Other assets and deferred charges	117.9	142.9
	<hr/>	<hr/>
	\$ 6,999.6	7,029.0
	<hr/>	<hr/>
<b>Liabilities</b>		
Current liabilities:		
Short-term debt	\$ 48.5	35.2
Current portion of long-term debt	124.4	127.0
Accounts payable and accrued expenses	610.2	609.1
Dividends payable	3.3	3.4
Accrued income taxes	28.6	9.4
	<hr/>	<hr/>
Current liabilities	815.0	784.1
Long-term debt	1,847.8	1,948.4
Deferred income taxes	420.1	430.8
Other liabilities and deferred credits	1,010.0	986.8
	<hr/>	<hr/>
	4,092.9	4,150.1
	<hr/>	<hr/>
<b>Minority interests in consolidated subsidiaries</b>	74.0	65.3
	<hr/>	<hr/>
<b>Shareholders equity</b>		
Common shares, par value \$6.25; 200.0 shares authorized; 89.3 outstanding in 2003 and 88.9 outstanding in 2002	557.8	555.6
Cumulative preferred shares, par value \$1.00; 6.0 shares authorized; 2.0 outstanding in 2003 and 2002	2.0	2.0
Capital in excess of par value	1,562.2	1,552.1
Retained earnings	1,132.7	1,173.3

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Accumulated other comprehensive loss	(410.7)	(458.5)
Other	(11.3)	(10.9)
	<u>2,832.7</u>	<u>2,813.6</u>
	\$6,999.6	7,029.0
	<u>\$6,999.6</u>	<u>7,029.0</u>

See Notes to Consolidated Financial Information

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**CONSOLIDATED STATEMENT OF CASH FLOWS**

(Unaudited; in millions)

	<b>Nine Months Ended September 30,</b>	
	<b>2003</b>	<b>2002</b>
		<b>(As Restated)*</b>
<b>Operating activities</b>		
Net loss	\$ (30.5)	(112.8)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation, depletion and amortization	311.9	307.9
Deferred income taxes	3.9	(10.9)
Equity earnings, net of dividends received		1.2
Special items and provisions	3.2	50.9
Early debt extinguishment costs		31.3
Cumulative effect of accounting change	(9.7)	33.0
Changes in current assets and liabilities:		
Accounts receivable	(74.4)	0.1
Proceeds (repayments) from sale of accounts receivable	(4.5)	(14.4)
Mill and leach stockpiles	22.9	6.7
Inventories	27.5	68.2
Supplies	1.5	1.3
Prepaid expenses	(2.2)	(7.0)
Interest payable	29.0	16.8
Other accounts payable	15.9	(32.2)
Accrued income taxes	20.4	3.2
Other accrued expenses	(55.5)	(10.1)
Other adjustments, net	(14.2)	(31.9)
	<u>245.2</u>	<u>301.3</u>
<b>Investing activities</b>		
Capital outlays	(105.5)	(86.5)
Capitalized interest	(0.4)	
Investment in subsidiaries, net of cash received	(0.8)	(2.0)
Proceeds from asset dispositions	15.1	34.7
Other investing, net	(4.2)	(33.6)
	<u>(95.8)</u>	<u>(87.4)</u>
<b>Financing activities</b>		
Proceeds from issuance of debt	9.5	21.8
Payment of debt	(102.7)	(742.2)
Preferred dividends	(10.1)	(2.4)
Issuance of shares	8.6	592.2
Other financing, net	33.8	(32.8)
	<u>(60.9)</u>	<u>(163.4)</u>

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<b>Increase in cash and cash equivalents</b>	88.5	50.5
<b>Cash and cash equivalents at beginning of period</b>	349.8	386.9
	<u>          </u>	<u>          </u>
<b>Cash and cash equivalents at end of period</b>	\$ 438.3	437.4
	<u>          </u>	<u>          </u>

\* Refer to Note 2 to Consolidated Financial Information.  
See Notes to Consolidated Financial Information

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**CONSOLIDATED STATEMENT OF SHAREHOLDERS EQUITY**

(Unaudited; in millions)

	Common Shares		Preferred Shares		Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Income (Loss)		Shareholders Equity
	Number of Shares	At Par Value	Number of Shares	At Par Value			Other		
<b>Balance at December 31, 2002</b>	88.9	\$555.6	2.0	\$2.0	\$1,552.1	\$1,173.3	\$ (458.5)	\$ (10.9)	\$2,813.6
Stock options exercised	0.3	1.6			7.3				8.9
Restricted shares issued/cancelled, net	0.1	0.6			2.8			(0.4)	3.0
Dividends on preferred shares						(10.1)			(10.1)
Comprehensive income (loss):									
Net loss						(30.5)			(30.5)
Other comprehensive income (loss), net of tax:									
Translation adjustment							42.9		42.9
Net gain on derivative instruments							3.9		3.9
Other investment adjustments							(0.1)		(0.1)
Unrealized gains on securities							1.1		1.1
Other comprehensive income							47.8		47.8
Comprehensive income									17.3
<b>Balance at September 30, 2003</b>	89.3	\$557.8	2.0	\$2.0	\$1,562.2	\$1,132.7	\$ (410.7)	\$ (11.3)	\$2,832.7

See Notes to Consolidated Financial Information

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**FINANCIAL DATA BY BUSINESS SEGMENT**

(Unaudited; in millions)

	U.S. Mines					South American Mines			
	Morenci	Bagdad/ Sierrita	Miami/ Bisbee	Chino/ Cobre	Tyrone	Candelaria	Cerro Verde	El Abra	Primary Molybdenum
<b>Third Quarter 2003</b>									
Sales and other operating revenues:									
Unaffiliated customers						40.6	10.5	31.3	101.0
Intersegment	150.0	119.8	7.9	10.6	21.9	35.2	29.0	22.5	
Depreciation, depletion and amortization	18.4	8.1	2.0	2.1	3.2	10.3	7.2	17.6	5.6
Operating income (loss) before special items and provisions	20.9	23.7	(0.7)	(3.6)	(5.0)	22.4	10.6	7.7	(0.4)
Special items and provisions	(1.1)			(1.3)	(0.5)				
Operating income (loss)	19.8	23.7	(0.7)	(4.9)	(5.5)	22.4	10.6	7.7	(0.4)
Assets at September 30	1,028.6	743.0	120.3	300.9	156.3	665.6	421.0	536.8	788.7
Expenditures for segment assets	3.2	1.6	0.1	0.6	0.8	0.9	1.1	(0.9)	3.7

**Third Quarter 2002 (as restated)**

Sales and other operating revenues:

Unaffiliated customers				0.1		31.9	9.0	39.4	81.6
Intersegment	129.2	105.6	7.9	12.2	26.7	26.6	22.8	19.8	
Depreciation, depletion and amortization	20.1	6.8	1.3	3.2	3.1	9.4	7.8	14.9	6.4
Operating income (loss) before special items and provisions	1.2	8.7	(3.6)	0.4	0.9	7.7	4.6	(5.4)	10.7
Special items and provisions	(0.5)		(2.3)	(2.5)					
Operating income (loss)	0.7	8.7	(5.9)	(2.1)	0.9	7.7	4.6	(5.4)	10.7
Assets at September 30	1,099.4	752.3	120.4	402.2	148.7	662.7	451.8	528.0	792.5
Expenditures for segment assets	2.5	13.5	0.1	1.3	0.1	0.8	1.2	1.2	2.4

	Manufactur- ing and Sales	Other Mining	PDMC Elimi- nations	PDMC Subtotal	Specialty Chemicals	Wire & Cable	PDI Subtotal	Corporate, Other & Elimi- nations	Totals
<b>Third Quarter 2003</b>									
Sales and other operating revenues:									
Unaffiliated customers	514.7	6.0		704.1	152.0	175.0	327.0		1,031.1
Intersegment	80.4	17.8	(463.5)	31.6		0.1	0.1	(31.7)	
Depreciation, depletion and amortization	4.4	2.0		80.9	11.4	8.9	20.3	1.9	103.1
Operating income (loss) before special items and provisions	6.2	(17.2)		64.6	8.4	5.4	13.8	(22.2)	56.2
Special items and provisions	(0.1)	(2.0)		(5.0)		0.4	0.4	(4.8)	(9.4)
Operating income (loss)	6.1	(19.2)		59.6	8.4	5.8	14.2	(27.0)	46.8
Assets at September 30	493.2	1,486.0	(1,607.1)	5,133.3	745.9	532.0	1,277.9	588.4	6,999.6
Expenditures for segment assets	3.2	1.6		15.9	7.6	3.6	11.2	1.9	29.0

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**Third Quarter 2002 (as restated)**

Sales and other operating revenues:

Unaffiliated customers	460.8	6.5		629.3	138.5	173.4	311.9		941.2
Intersegment	98.0	13.4	(428.6)	33.6		0.1	0.1	(33.7)	
Depreciation, depletion and amortization	6.1	0.6		79.7	10.1	10.1	20.2	2.0	101.9
Operating income (loss) before special items and provisions	1.2	(12.6)		13.8	11.0	3.4	14.4	(17.0)	11.2
Special items and provisions	0.7	(3.5)		(8.1)	1.1	(22.5)	(21.4)	6.3	(23.2)
Operating income (loss)	1.9	(16.1)		5.7	12.1	(19.1)	(7.0)	(10.7)	(12.0)
Assets at September 30	513.1	1,718.8	(1,813.2)	5,376.7	652.2	525.8	1,178.0	744.5	7,299.2
Expenditures for segment assets	1.7	2.4		27.2	7.1	2.5	9.6	0.9	37.7

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**FINANCIAL DATA BY BUSINESS SEGMENT**

(Unaudited; in millions)

	U.S. Mines					South American Mines			
	Morenci	Bagdad/ Sierrita	Miami/ Bisbee	Chino/ Cobre	Tyrone	Candelaria	Cerro Verde	El Abra	Primary Molybdenum
<b>Nine Months Ended 2003</b>									
Sales and other operating revenues:									
Unaffiliated customers				0.2		159.8	29.4	92.8	270.3
Intersegment	424.3	334.6	26.1	28.4	70.5	65.8	84.6	64.3	
Depreciation, depletion and amortization	57.4	23.2	5.4	6.1	10.0	30.8	21.8	49.2	18.5
Operating income (loss) before special items and provisions	38.2	48.7	(4.0)	(8.5)	(13.9)	59.1	26.7	18.5	0.1
Special items and provisions	(1.1)		(0.5)	(1.3)	(0.5)				
Operating income (loss)	37.1	48.7	(4.5)	(9.8)	(14.4)	59.1	26.7	18.5	0.1
Assets at September 30	1,028.6	743.0	120.3	300.9	156.3	665.6	421.0	536.8	788.7
Expenditures for segment assets	13.1	12.4	0.2	2.2	1.0	2.5	3.0	(0.2)	8.9

**Nine Months Ended 2002 (as restated)**

Sales and other operating revenues:

Unaffiliated customers				0.6		117.3	28.2	124.9	205.9
Intersegment	397.7	278.0	19.8	46.2	76.8	86.3	71.2	68.1	
Depreciation, depletion and amortization	59.5	20.0	3.9	9.0	9.2	28.8	22.8	47.6	18.1
Operating income (loss) before special items and provisions	25.9	8.9	(11.9)	7.4	(0.2)	41.1	18.2	(4.7)	10.9
Special items and provisions	(0.5)		(2.3)	(2.5)					
Operating income (loss)	25.4	8.9	(14.2)	4.9	(0.2)	41.1	18.2	(4.7)	10.9
Assets at September 30	1,099.4	752.3	120.4	402.2	148.7	662.7	451.8	528.0	792.5
Expenditures for segment assets	4.8	29.9	0.2	2.2	2.7	1.8	4.6	3.8	6.9

	Manufacturing and Sales	Other Mining	PDMC Eliminations	PDMC Subtotal	Specialty Chemicals	Wire & Cable	PDI Subtotal	Corporate, Other & Eliminations	Totals
<b>Nine Months Ended 2003</b>									
Sales and other operating revenues:									
Unaffiliated customers	1,431.5	16.7		2,000.7	480.2	490.4	970.6		2,971.3
Intersegment	235.8	51.8	(1,293.7)	92.5		0.2	0.2	(92.7)	
Depreciation, depletion and amortization	12.6	5.1		240.1	34.1	26.7	60.8	11.0	311.9
Operating income (loss) before special items and provisions	21.2	(59.5)		126.6	34.3	12.3	46.6	(70.9)	102.3
Special items and provisions	(0.1)	(2.0)		(5.5)	3.2	0.4	3.6	(7.7)	(9.6)
Operating income (loss)	21.1	(61.5)		121.1	37.5	12.7	50.2	(78.6)	92.7
Assets at September 30	493.2	1,486.0	(1,607.1)	5,133.3	745.9	532.0	1,277.9	588.4	6,999.6

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Expenditures for segment assets	6.7	3.1		52.9	17.3	10.3	27.6	25.8	106.3
<b>Nine Months Ended 2002</b>									
<b>(as restated)</b>									
Sales and other operating revenues:									
Unaffiliated customers	1,393.3	15.3		1,885.5	408.3	532.7	941.0		2,826.5
Intersegment	303.5	42.1	(1,281.8)	107.9		0.3	0.3	(108.2)	
Depreciation, depletion and amortization	18.1	2.0		239.0	31.3	31.5	62.8	6.1	307.9
Operating income (loss) before special items and provisions									
	(1.5)	(49.5)		44.6	41.2	9.5	50.7	(55.1)	40.2
Special items and provisions	0.7	31.2		26.6	1.1	(22.5)	(21.4)	(54.9)	(49.7)
Operating income (loss)	(0.8)	(18.3)		71.2	42.3	(13.0)	29.3	(110.0)	(9.5)
Assets at September 30	513.1	1,718.8	(1,813.2)	5,376.7	652.2	525.8	1,178.0	744.5	7,299.2
Expenditures for segment assets	4.7	3.7		65.3	12.3	6.8	19.1	4.1	88.5

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**NOTES TO CONSOLIDATED FINANCIAL INFORMATION**

(Unaudited)

1. *General Information*

The unaudited consolidated financial information of Phelps Dodge Corporation (the Company, which may be referred to as Phelps Dodge, PD, we, us or ours) presented herein has been prepared in accordance with the instructions to Form 10-Q and does not include all of the information and note disclosures required by U.S. generally accepted accounting principles (GAAP). Therefore, this information should be read in conjunction with the consolidated financial statements and notes thereto included in our Form 10-K for the year ended December 31, 2002. This information reflects all adjustments that are, in the opinion of management, necessary to a fair statement of the results for the interim periods reported. Our business consists of two divisions, Phelps Dodge Mining Company (PDMC) and Phelps Dodge Industries (PDI).

The results of operations for the quarter and nine-month period ended September 30, 2003, are not necessarily indicative of the results to be expected for the full year.

2. *Restatements*

In Note 1, Summary of Significant Accounting Policies, and Note 22, Restatement of Consolidated Financial Statements, in the Company's Form 10-K for the year ended December 31, 2002, we identified certain accounting matters in the fourth quarter of 2002 that required restatement of our December 31, 2001 and 2000, Consolidated Financial Statements and our financial information for the quarterly periods ended March 31, 2001, through September 30, 2002. Additionally, our presentation of reportable segment information for PDMC for the quarter and nine months ended September 30, 2002, has been revised to reflect additional segments.

Following are summaries of selected unaudited quarterly financial data, as restated for the quarter and nine months ended September 30, 2002:

(Unaudited; \$ in millions)

	<b>Third Quarter 2002</b>			<b>As Restated</b>
	<b>As Previously Reported</b>	<b>Adjust- ments (1)(2) (3)(4) (5)(6)</b>	<b>Reclass- ifications (7)</b>	
Sales and other operating revenues	\$941.2			941.2
Operating loss	(18.9)	6.9		(12.0)
Loss before cumulative effect of accounting change	(29.3)	2.2	(26.6)	(53.7)
Net loss	(55.9)	2.2		(53.7)
Basic and diluted loss per common share before cumulative effect of accounting change	(0.37)	0.03	(0.30)	(0.64)
Basic and diluted loss per common share	(0.67)	0.03		(0.64)

Adjustments comprise the following:

- (1) Adjustments to the units-of-production depreciation rate calculation for PDMC's mining, smelting and refining operations this change reduced our depreciation and amortization expense and reduced our operating loss by \$3.3 million in the third quarter of 2002. Additionally, this change decreased our net loss by \$2.6 million, or 3 cents per common share, in the third quarter of 2002.



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- (2) Adjustments to the acquired reclamation obligations assumed in the Cyprus Amax Minerals Company acquisition this change increased our cost of products sold and our operating loss by \$0.9 million in the third quarter of 2002. Additionally, this change increased our net loss by \$0.7 million, or 1 cent per common share, in the third quarter of 2002.
  - (3) Adjustments to the estimated reclamation obligation at our Tyrone mine in 2002 to exclude mineralized material from the determination of the unit reclamation and closure accrual rate this change increased our cost of products sold, operating loss, and net loss by \$2.4 million, or 3 cents per common share, in the third quarter of 2002.
  - (4) Adjustments to capitalize costs associated with material in mill and leach stockpiles and the consequent in-process material being converted to salable copper products, which were stated at the lower of cost or market this change decreased both our cost of products sold and our operating loss by \$6.9 million in the third quarter of 2002. Additionally, this change decreased our net loss by \$6.2 million, or 7 cents per common share, in the third quarter of 2002.
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- (5) In 2001, a deferred tax asset valuation allowance of \$57.9 million associated with our El Abra copper mine in Chile was established. The adjustment to the deferred tax asset caused an increase to our net loss by \$3.9 million, or 4 cents per common share, in the third quarter of 2002.
- (6) The overall effect of the aforementioned adjustments resulted in an incremental income tax expense that decreased our net loss by \$0.4 million, or 1 cent per common share, in the third quarter of 2002.
- (7) Effective January 1, 2003, the Company adopted SFAS No. 145, a standard that addresses the classification of gains or losses from early extinguishment of debt. Prior to the adoption of SFAS No. 145, the Company reported losses from the early extinguishment of debt as extraordinary items. During the quarter ended September 30, 2002, the Company recorded a \$26.6 million after-tax charge (\$31.3 million pre-tax) for early debt extinguishment costs. In 2003, these charges have been reclassified to a recurring item in accordance with SFAS No. 145. These reclassifications had no impact on reported net income.
- (Unaudited; \$ in millions except per share data)

	<b>Nine Months Ended September 30, 2002</b>			<b>As Restated</b>
	<b>As Previously Reported</b>	<b>Adjust- ments (1)(2) (3)(4) (5)(6)</b>	<b>Reclass- ifications (7)</b>	
Sales and other operating revenues	\$2,826.5			2,826.5
Operating loss	(27.7)	18.2		(9.5)
Loss before cumulative effect of accounting change	(70.5)	7.2	(26.6)	(89.9)
Net loss	(120.0)	7.2		(112.8)
Basic and diluted loss per common share before cumulative effect of accounting change	(0.92)	0.09	(0.32)	(1.15)
Basic and diluted loss per common share	(1.52)	0.09		(1.43)

Adjustments comprise the following:

- (1) Adjustments to the units-of-production depreciation rate calculation for PDMC's mining, smelting and refining operations this change reduced our depreciation and amortization expense and decreased our operating loss by \$9.0 million for the nine months ended September 30, 2002. Additionally, this change decreased our net loss by \$7.2 million, or 9 cents per common share, for the nine months ended September 30, 2002.
- (2) Adjustments to the acquired reclamation obligations assumed in the Cyprus Amax Minerals Company acquisition this change increased both our cost of products sold and our operating loss by \$2.7 million for the nine months ended September 30, 2002. Additionally, this change increased our net loss by \$2.2 million, or 3 cents per common share, for the nine months ended September 30, 2002.
- (3) Adjustments to the estimated reclamation obligation at our Tyrone mine in 2002 to exclude mineralized material from the determination of the unit reclamation and closure accrual rate this change increased our cost of products sold and our operating loss and net loss by \$6.6 million, or 8 cents per common share, for the nine months ended September 30, 2002.
- (4) Adjustments to capitalize costs associated with material in mill and leach stockpiles and the consequent in-process material being converted to salable copper products, which were stated at the lower of cost or market this change decreased our cost of products sold and our operating loss by \$18.5 million for the nine months ended September 30, 2002. Additionally, this change decreased our net loss by \$16.9 million, or 21 cents per common share, for the nine months ended September 30, 2002.

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- (5) In 2001, a deferred tax asset valuation allowance of \$57.9 million associated with our El Abra copper mine in Chile was established. The adjustment to the deferred tax asset caused an increase to our net loss by \$8.1 million, or 10 cents per common share, for the nine months ended September 30, 2002.
- (6) The overall effect of the aforementioned adjustments resulted in an incremental income tax expense that had no effect on our net loss for the nine months ended September 30, 2002.
- (7) Effective January 1, 2003, the Company adopted SFAS No. 145, a standard that addresses the classification of gains or losses from early extinguishment of debt. Prior to the adoption of SFAS No. 145, the Company reported losses from the early extinguishment of debt as extraordinary items. During the quarter ended September 30, 2002, the Company recorded a \$26.6 million after-tax charge (\$31.3 million pre-tax) for early debt extinguishment costs. In 2003, these charges have been reclassified to a recurring item in accordance with SFAS No. 145. These reclassifications had no impact on reported net income.

### 3. *Reclassification of Intangible Assets*

The Company had discussions with the staff of the Securities and Exchange Commission regarding the balance sheet classification of certain mining concessions, primarily mining concessions containing proven and probable ore reserves and mineralized material at the Company's South American mines, and whether such assets constitute tangible or intangible assets based upon certain guidance contained in Statement of Financial Accounting Standards (SFAS) No.

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141, Business Combinations, and SFAS No. 142, Goodwill and Other Intangible Assets. Historically the Company has classified such assets, less the related accumulated depreciation, depletion and amortization, as Property, plant and equipment, net on its consolidated balance sheet. The Company has reclassified such mining concessions as intangible assets. Previously reported historical amounts also have been reclassified for comparative purposes. These assets will continue to be amortized over their respective useful lives. The reclassifications had no effect on the Company's net loss or shareholders' equity.

The following table summarizes the gross and net carrying amount of intangible assets at December 31, 2002, and September 30, 2003:

(Unaudited; \$ in millions)

	September 30, 2003	December 31, 2002
Gross carrying amount	\$ 443.6*	439.5
Less accumulated amortization	(115.8)*	(93.6)
	<u>\$ 327.8</u>	<u>345.9</u>

\* Includes amounts for recording an asset retirement cost associated with the implementation of SFAS No. 143. (See Note 6, Accounting Standards, for further discussion.)

Amortization expense related to intangible assets was \$6.6 million and \$6.3 million for the three months ended September 30, 2003 and 2002, respectively, and \$20.2 million and \$19.4 million for the nine months ended September 30, 2003 and 2002, respectively.

The estimated annual aggregate amortization expense for intangibles is as follows:

(Unaudited; \$ in millions)

2004	\$26.8
2005	27.3
2006	27.3
2007	27.4
2008	27.6

#### 4. Stock Compensation

We account for our stock option plans by measuring compensation cost using the intrinsic-value-based method presented in Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations. No compensation cost is reflected in consolidated net loss, as all options granted under the plans had an exercise price equal to the market value of the underlying common stock on the date of the grant. The following table presents the effect on net loss and loss per common share as if we had applied the fair value recognition provisions of SFAS No. 123, Accounting for Stock-Based Compensation, to compensation cost. (Unaudited; \$ in millions except per share data)

	Third Quarter	
	2003	2002
Net loss as reported	\$ (0.3)	(53.7)
Deduct:		(As Restated)*
Total compensation cost determined under fair value based method for all	(2.9)	(4.0)

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awards, net of tax		
	—	—
<i>Pro forma</i> net loss	\$ (3.2)	(57.7)
	—	—
Loss per common share		
Basic as reported	\$(0.04)	(0.64)
Basic <i>pro forma</i>	\$(0.07)	(0.69)
Loss per common share		
Diluted as reported	\$(0.04)	(0.64)
Diluted <i>pro forma</i>	\$(0.07)	(0.69)

\* Refer to Note 2, Restatements, for further discussion.

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(Unaudited; \$ in millions except per share data)

	Nine Months Ended September 30,	
	2003	2002
		(As Restated)*
Net loss as reported	\$(30.5)	(112.8)
Deduct:		
Total compensation cost determined under fair value based method for all awards, net of tax	(8.7)	(10.3)