

FREEPORT-MCMORAN INC  
Form 10-Q  
November 07, 2014

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2014

OR

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: 001-11307-01

Freeport-McMoRan Inc.

(Exact name of registrant as specified in its charter)

Delaware

74-2480931

(State or other jurisdiction of  
incorporation or organization)

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

333 North Central Avenue

Phoenix, AZ

85004-2189

(Address of principal executive offices)

(Zip Code)

(602) 366-8100

(Registrant's telephone number, including area code)

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 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  No

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  Accelerated filer  Non-accelerated filer  Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

On October 31, 2014, there were issued and outstanding 1,039,118,147 shares of the registrant's common stock, par value \$0.10 per share.

---

FREEPORT-McMoRan INC.

TABLE OF CONTENTS

	Page
<u>Part I. Financial Information</u>	<u>3</u>
<u>Item 1. Financial Statements:</u>	
<u>Condensed Consolidated Balance Sheets (Unaudited)</u>	<u>3</u>
<u>Consolidated Statements of Income (Unaudited)</u>	<u>4</u>
<u>Consolidated Statements of Comprehensive Income (Unaudited)</u>	<u>5</u>
<u>Consolidated Statements of Cash Flows (Unaudited)</u>	<u>6</u>
<u>Consolidated Statement of Equity (Unaudited)</u>	<u>7</u>
<u>Notes to Consolidated Financial Statements (Unaudited)</u>	<u>8</u>
<u>Review Report of Independent Registered Public Accounting Firm</u>	<u>31</u>
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>32</u>
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>90</u>
<u>Item 4. Controls and Procedures</u>	<u>90</u>
<u>Part II. Other Information</u>	<u>90</u>
<u>Item 1. Legal Proceedings</u>	<u>90</u>
<u>Item 1A. Risk Factors</u>	<u>90</u>
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>92</u>
<u>Item 4. Mine Safety Disclosure</u>	<u>92</u>
<u>Item 5. Other Information</u>	<u>93</u>
<u>Item 6. Exhibits</u>	<u>96</u>
<u>Signature</u>	<u>96</u>
<u>Exhibit Index</u>	<u>E-1</u>



Table of Contents

## Part I. FINANCIAL INFORMATION

## Item 1. Financial Statements.

## FREEPORT-McMoRan INC.

## CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)

	September 30, 2014	December 31, 2013
	(In millions)	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$658	\$1,985
Trade accounts receivable	1,514	1,728
Other accounts receivable	793	834
Inventories:		
Mill and leach stockpiles	1,967	1,705
Materials and supplies, net	1,943	1,730
Product	1,579	1,583
Other current assets	577	407
Total current assets	9,031	9,972
Property, plant, equipment and mining development costs, net	26,304	24,042
Oil and gas properties - full cost method		
Subject to amortization, less accumulated amortization	11,306	12,472
Not subject to amortization	11,031	10,887
Long-term mill and leach stockpiles	2,569	2,386
Goodwill	1,717	1,916
Other assets	2,018	1,798
Total assets	\$63,976	\$63,473
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$3,784	\$3,708
Current portion of debt	1,762	312
Dividends payable	334	333
Current portion of environmental and asset retirement obligations	310	236
Accrued income taxes	153	184
Total current liabilities	6,343	4,773
Long-term debt, less current portion	17,975	20,394
Deferred income taxes	7,559	7,410
Environmental and asset retirement obligations, less current portion	3,654	3,259
Other liabilities	1,730	1,690
Total liabilities	37,261	37,526
Redeemable noncontrolling interest	749	716
Equity:		
FCX stockholders' equity:		
Common stock	117	117

Edgar Filing: FREEPORT-MCMORAN INC - Form 10-Q

Capital in excess of par value	22,248		22,161	
Retained earnings	3,306		2,742	
Accumulated other comprehensive loss	(394	)	(405	)
Common stock held in treasury	(3,686	)	(3,681	)
Total FCX stockholders' equity	21,591		20,934	
Noncontrolling interests	4,375		4,297	
Total equity	25,966		25,231	
Total liabilities and equity	\$63,976		\$63,473	

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

3

---

Table of ContentsFREEPORT-McMoRan INC.  
CONSOLIDATED STATEMENTS OF INCOME (Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(In millions, except per share amounts)			
Revenues	\$5,696	\$6,165	\$16,203	\$15,036
Cost of sales:				
Production and delivery	3,152	3,332	8,971	8,904
Depreciation, depletion and amortization	945	919	2,924	1,778
Impairment of oil and gas properties	308	—	308	—
Total cost of sales	4,405	4,251	12,203	10,682
Selling, general and administrative expenses	158	158	457	457
Mining exploration and research expenses	29	57	93	173
Environmental obligations and shutdown costs	18	(8)	100	23
Net gain on sales of assets	(46)	—	(46)	—
Total costs and expenses	4,564	4,458	12,807	11,335
Operating income	1,132	1,707	3,396	3,701
Interest expense, net	(158)	(162)	(483)	(351)
Net gain (loss) on early extinguishment of debt	58	—	63	(45)
Gain on investment in McMoRan Exploration Co.	—	—	—	128
Other income, net	23	3	48	13
Income before income taxes and equity in affiliated companies' net (losses) earnings	1,055	1,548	3,024	3,446
Provision for income taxes	(349)	(499)	(1,034)	(967)
Equity in affiliated companies' net (losses) earnings	(2)	(1)	—	3
Net income	704	1,048	1,990	2,482
Net income attributable to noncontrolling interests	(142)	(218)	(416)	(519)
Preferred dividends attributable to redeemable noncontrolling interest	(10)	(9)	(30)	(12)
Net income attributable to FCX common stockholders	\$552	\$821	\$1,544	\$1,951
Net income per share attributable to FCX common stockholders:				
Basic	\$0.53	\$0.79	\$1.48	\$1.97
Diluted	\$0.53	\$0.79	\$1.47	\$1.96
Weighted-average common shares outstanding:				
Basic	1,039	1,038	1,039	989
Diluted	1,046	1,043	1,045	993
Dividends declared per share of common stock	\$0.3125	\$0.3125	\$0.9375	\$1.9375

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

Table of Contents

## FREEPORT-McMoRan INC.

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(In millions)			
Net income	\$704	\$1,048	\$1,990	\$2,482
Other comprehensive income, net of taxes:				
Defined benefit plans:				
Amortization of unrecognized amounts included in net periodic benefit costs	5	6	12	18
Foreign exchange losses	2	—	(1	) —
Translation adjustments and unrealized gains (losses) on securities	—	4	—	3
Other comprehensive income	7	10	11	21
Total comprehensive income	711	1,058	2,001	2,503
Total comprehensive income attributable to noncontrolling interests	(142	) (217	) (416	) (518
Preferred dividends attributable to redeemable noncontrolling interest	(10	) (9	) (30	) (12
Total comprehensive income attributable to FCX common stockholders	\$559	\$832	\$1,555	\$1,973

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



Table of Contents

## FREEPORT-McMoRan INC.

## CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

	Nine Months Ended September 30,	
	2014	2013
	(In millions)	
Cash flow from operating activities:		
Net income	\$1,990	\$2,482
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion and amortization	2,924	1,778
Impairment of oil and gas properties	308	—
Net losses on crude oil and natural gas derivative contracts	56	205
Gain on investment in McMoRan Exploration Co. (MMR)	—	(128)
Net charges for environmental and asset retirement obligations, including accretion	146	98
Payments for environmental and asset retirement obligations	(134)	(166)
Net (gain) loss on early extinguishment of debt	(63)	45
Net gain on sales of assets	(46)	—
Deferred income taxes	107	169
Increase in long-term mill and leach stockpiles	(182)	(348)
Other, net	106	97
Decreases (increases) in working capital and changes in other tax payments, excluding amounts from acquisitions and dispositions:		
Accounts receivable	200	51
Inventories	(267)	(66)
Other current assets	(26)	162
Accounts payable and accrued liabilities	(379)	(596)
Accrued income taxes and other tax payments	(227)	(40)
Net cash provided by operating activities	4,513	3,743
Cash flow from investing activities:		
Capital expenditures:		
North America copper mines	(815)	(795)
South America	(1,278)	(734)
Indonesia	(722)	(720)
Africa	(100)	(155)
Molybdenum mines	(45)	(128)
U.S. oil and gas operations	(2,392)	(928)
Other	(63)	(163)
Acquisition of Deepwater Gulf of Mexico interests	(1,421)	—
Acquisition of Plains Exploration & Production Company, net of cash acquired	—	(3,465)
Acquisition of MMR, net of cash acquired	—	(1,628)
Acquisition of cobalt chemical business, net of cash acquired	—	(348)
Net proceeds from sale of Eagle Ford shale assets	2,971	—
Other, net	221	(24)
Net cash used in investing activities	(3,644)	(9,088)
Cash flow from financing activities:		
Proceeds from debt	3,346	11,229

Edgar Filing: FREEPORT-MCMORAN INC - Form 10-Q

Repayments of debt	(4,196	)	(4,816	)
Redemption of MMR preferred stock	—		(227	)
Cash dividends and distributions paid:				
Common stock	(979	)	(1,957	)
Noncontrolling interests	(365	)	(157	)
Contributions from noncontrolling interests	24		—	
Stock-based awards net proceeds (payments), including excess tax benefit	7		(100	)
Debt financing costs and other, net	(33	)	(113	)
Net cash (used in) provided by financing activities	(2,196	)	3,859	
Net decrease in cash and cash equivalents	(1,327	)	(1,486	)
Cash and cash equivalents at beginning of year	1,985		3,705	
Cash and cash equivalents at end of period	\$658		\$2,219	

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

Table of ContentsFREEPORT-McMoRan INC.  
CONSOLIDATED STATEMENT OF EQUITY (Unaudited)

	FCX Stockholders' Equity					Common Stock		Total FCX Stock-holders' Equity	Non-controlling Interests	Total Equity
	Common Stock	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Loss	Held in Treasury	Number of Shares	At Cost			
	Number of Shares	At Par Value								
	(In millions)									
Balance at December 31, 2013	1,165	\$ 117	\$ 22,161	\$ 2,742	\$ (405 )	127	\$ (3,681)	\$ 20,934	\$ 4,297	\$ 25,231
Exercised and issued stock-based awards	2	—	13	—	—	—	—	13	—	13
Stock-based compensation	—	—	75	—	—	—	—	75	—	75
Tender of shares for stock-based awards	—	—	—	—	—	—	(5 )	(5 )	—	(5 )
Dividends on common stock	—	—	—	(980 )	—	—	—	(980 )	—	(980 )
Dividends to noncontrolling interests	—	—	—	—	—	—	—	—	(344 )	(344 )