

MILLENNIUM CHEMICALS INC
Form 10-Q/A
February 14, 2005
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SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q/A

(AMENDMENT NO. 4)

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

For the quarterly period ended March 31, 2004

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: 1-12091

MILLENNIUM CHEMICALS INC.

(Exact name of registrant as specified in its charter)

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Delaware
(State or other jurisdiction of
incorporation or organization)

22-3436215
(I.R.S. Employer Identification No.)

1221 McKinney Street, Suite 700

Houston, Texas 77010

(Address of principal executive offices)

713-652-7200

(Registrant's telephone number, including area code)

(Information regarding address and telephone number reflects changes resulting from

Lyondell Chemical Company's November 30, 2004 acquisition of the registrant.)

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 is 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 of the Act). Yes No .

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 64,970,023 shares of Common Stock, par value \$.01 per share, as of April 30, 2004, excluding 12,926,563 shares held by the registrant, its subsidiaries and certain Company trusts that are not entitled to vote. As a result of Lyondell Chemical Company's November 30, 2004 acquisition of the registrant, there is no established public trading market for the registrant's equity securities.

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Explanatory Note

Millennium Chemicals Inc. (the Company) filed Amendment No. 2 to its Annual Report on Form 10-K/A for the year ended December 31, 2003 (Amendment No. 2) on August 9, 2004 to reflect the restatement of its financial statements for the years ended December 31, 2001 through 2003. That restatement (the August 2004 Restatement) corrected errors in the computation of deferred income taxes relating to the Company's investment in Equistar Chemicals, LP (Equistar), a partnership in which the Company owns a 29.5% interest. The August 2004 Restatement decreased the Company's liability for deferred income taxes and Shareholders' deficit at December 31, 2003 and 2002 by \$15 million. The August 2004 Restatement similarly decreased liabilities for deferred income taxes and increased Shareholders' equity at December 31, 2001 and 2000 by \$15 million. The August 2004 Restatement did not affect the Company's cash flow or operating income in any year. For more information on the effect of the August 2004 Restatement for each period presented see Note 17 to the Consolidated Financial Statements.

The Company is filing this Amendment No. 4 to its Quarterly Report on Form 10-Q/A for the period ended March 31, 2004 (Amendment No. 4) to restate its financial statements for the first quarter of 2004. Included herein are restated consolidated statements of operations and statements of cash flows for the three month periods ended March 31, 2004 and 2003 and restated consolidated balance sheets as of March 31, 2004 and December 31, 2003. This restatement (the February 2005 Restatement) corrects errors made in recording estimated liabilities for future environmental remediation spending associated with existing obligations, primarily related to the Kalamazoo River Superfund Site, that were not recorded previously. The February 2005 Restatement increased environmental remediation liabilities by \$49 million, decreased deferred tax liabilities by \$16 million, and increased Accumulated deficit by \$33 million as of March 31, 2004, and increased net loss by \$2 million, or \$0.03 per share, and \$1 million, or \$0.01 per share, respectively, for the three months ended March 31, 2004 and 2003. The Company has also made certain adjustments to the financial statements for the periods presented that previously had been considered immaterial to those financial statements. For more information on the effect of the February 2005 Restatement for each period presented, see Note 18 to the Consolidated Financial Statements.

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The company concluded, in January 2005, that it would restate its financial statements for the three months ended March 31, 2004 because of the errors that are corrected in the February 2005 Restatement. The conclusion was reached, as a result of an analysis of environmental remediation liabilities conducted in connection with Lyondell Chemical Company's (Lyondell) acquisition of the Company on November 30, 2004, and the preparation of the financial statements of Lyondell and the Company as of and for the year ended December 31, 2004. These errors were reported by the Company on February 1, 2005, in a press release, a copy of which was filed as an exhibit to a Current Report on Form 8-K filed on February 2, 2005.

A discussion of the February 2005 Restatement is set forth in Note 18 to the Consolidated Financial Statements included in this Amendment No. 4. Changes also have been made to the following items in this Amendment No. 4 as a result of the February 2005 Restatement:

Item 1, Financial Statements has been revised to reflect the February 2005 Restatement;

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Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations has been revised to reflect the February 2005 Restatement; and

Item 4, Controls and Procedures has been updated in connection with the errors discussed above.

On November 30, 2004, the Company was acquired by Lyondell. As a result, the Company is a wholly owned subsidiary of Lyondell. This Amendment No. 4 does not reflect events, including Lyondell's November 30, 2004 acquisition of the Company, that have occurred after May 14, 2004, the date the Quarterly Report on Form 10-Q was originally filed. Information with respect to events that have occurred after May 14, 2004, has been or will be set forth, as appropriate, in the Company's Annual Report on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K. Any references to facts and circumstances at a current date refer to such facts and circumstances as of such original filing date. This Amendment No. 4 consists of relevant portions of the Company's prior filing of the Quarterly Report on Form 10-Q for the quarter ended March 31, 2004, as previously amended, as prepared by the Company's prior management. The Company is under new management following the acquisition of the Company by Lyondell on November 30, 2004.

The Company is also filing with the Securities and Exchange Commission, amendments to its Annual Report on Form 10-K/A for the year ended December 31, 2003, and is filing, as soon as practicable, amendments to its Quarterly Reports on Form 10-Q/A for each of the three months ended June 30 and September 30, 2004, to reflect changes required as a result of the February 2005 Restatement.

The only changes made to the prior disclosures in this Amendment No. 4 are those that were determined necessary by the Company's new management as a result of the February 2005 Restatement. The Company has provided and will continue to provide current information as appropriate through filings on Form 8-K, as well as through the new filings on Form 10-Q referred to above. Also, the Company's new management is preparing the Company's Annual Report on Form 10-K for the year ended December 31, 2004, which, in many respects, may update and supersede the information included in this Amendment No. 4 and the Company's prior periodic reports, including regarding environmental liabilities.

In this Amendment No. 4, the terms our, we, and the Company refer to Millennium Chemicals Inc. and its consolidated subsidiaries, except as the context otherwise requires.

Non-GAAP Financial Measures

Financial measures based on accounting principles generally accepted in the United States of America (GAAP) are commonly referred to as GAAP financial measures. A non-GAAP financial measure is generally defined by the Securities and Exchange Commission as one that purports to measure historical or future financial performance, financial position, or cash flows, but excludes or includes amounts that would not be so adjusted in the most comparable GAAP measure. From time to time the Company discloses non-GAAP financial measures, primarily EBITDA. EBITDA represents income from operations before interest, taxes, depreciation and amortization, other income items, equity earnings, and the cumulative effect of accounting changes. EBITDA is a key measure used by the banking and investing communities in their evaluation of economic performance. Accordingly, management believes that disclosure of EBITDA provides useful information to investors because it is frequently cited by financial analysts in evaluating companies' performance. EBITDA identified above is not a measure of operating performance computed in accordance with GAAP and should not be considered as a substitute for GAAP measures. Additionally, these measures may not be comparable to similarly named measures of other companies.

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The Company also periodically reports adjusted net or operating income (loss) or adjusted EBITDA, excluding designated items. Management believes that excluding these items generally helps investors to compare operating performance between two periods. Such adjusted data are not reported without an explanation of the items that are excluded.

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MILLENNIUM CHEMICALS INC.
CONSOLIDATED BALANCE SHEETS
(UNAUDITED)
(Millions, except share data)

	<u>March 31,</u> <u>2004</u>	<u>December 31,</u> <u>2003</u>
	(Restated -See	
	Notes 17 and 18)	
ASSETS		
Current assets		
Cash and cash equivalents	\$ 196	\$ 209
Trade receivables, net	323	277
Inventories	417	457
Other current assets	77	65
	<u> </u>	<u> </u>
Total current assets	1,013	1,008
Property, plant and equipment, net	753	766
Investment in Equistar	471	469
Other assets	54	51
Goodwill	104	104
	<u> </u>	<u> </u>
Total assets	<u>\$ 2,395</u>	<u>\$ 2,398</u>
LIABILITIES AND SHAREHOLDERS DEFICIT		
Current liabilities		
Notes payable	\$ 6	\$ 6
Current maturities of long-term debt	5	6
Trade accounts payable	260	236
Income taxes payable	3	5
Accrued expenses and other liabilities	148	126
	<u> </u>	<u> </u>
Total current liabilities	422	373
Long-term debt	1,409	1,461
Deferred income taxes	253	257
Other liabilities	373	371
	<u> </u>	<u> </u>
Total liabilities	<u>2,457</u>	<u>2,462</u>

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Commitments and contingencies (Note 13)		
Minority interest	28	27
Shareholders' deficit		
Preferred stock (par value \$.01 per share, authorized 25,000,000 shares, none issued and outstanding)		
Common stock (par value \$.01 per share, authorized 225,000,000 shares; issued 77,896,586 shares at March 31, 2004 and December 31, 2003)		
	1	1
Paid in capital	1,289	1,292
Accumulated deficit	(1,007)	(995)
Accumulated other comprehensive loss	(131)	(141)
Treasury stock, at cost (13,224,871 and 13,905,687 shares at March 31, 2004 and December 31, 2003, respectively)	(247)	(260)
Unearned restricted shares	(2)	(1)
Deferred compensation	7	13
	<u> </u>	<u> </u>
Total shareholders' deficit	(90)	(91)
	<u> </u>	<u> </u>
Total liabilities and shareholders' deficit	\$ 2,395	\$ 2,398
	<u> </u>	<u> </u>

See Notes to Consolidated Financial Statements (Unaudited).

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MILLENNIUM CHEMICALS INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(UNAUDITED)

(Millions, except per share data)

	Three Months Ended March 31,	
	2004	2003
	(Restated - See Notes 17 and 18)	
Net sales	\$ 465	\$ 415
Operating costs and expenses		
Cost of products sold	388	331
Depreciation and amortization	24	27
Selling, development and administrative expense	36	31
Asset impairment charges	3	
Combination costs	3	
Reorganization and office closure costs	1	
	<u>10</u>	<u>26</u>
Operating income	10	26
Interest expense	(27)	(23)
Interest income	2	1
Earnings (loss) on Equistar investment	2	(43)
Other expense, net	(1)	
	<u>(14)</u>	<u>(39)</u>
Loss before income taxes, minority interest and cumulative effect of accounting change	(14)	(39)
Benefit from income taxes	3	15
	<u>(11)</u>	<u>(24)</u>
Loss before minority interest and cumulative effect of accounting change	(11)	(24)
Minority interest	(1)	(3)
	<u>(12)</u>	<u>(27)</u>
Loss before cumulative effect of accounting change	(12)	(27)
Cumulative effect of accounting change		(1)
	<u>(12)</u>	<u>(28)</u>
Net loss	\$ (12)	\$ (28)
Basic and diluted loss per share:		
Before cumulative effect of accounting change	\$ (0.19)	\$ (0.42)
From cumulative effect of accounting change		(0.02)
	<u>\$ (0.19)</u>	<u>\$ (0.44)</u>
After cumulative effect of accounting change	\$ (0.19)	\$ (0.44)

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See Notes to Consolidated Financial Statements (Unaudited).

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	Three Months Ended	
	March 31,	
	2004	2003
	(Restated -See	
	Notes 17 and 18)	
Cash flows from operating activities:		
Net loss	\$ (12)	\$ (28)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Cumulative effect of accounting change		1
Asset impairment charges	3	
Depreciation and amortization	24	27
Deferred income tax benefit	(6)	(21)
(Earnings) loss on Equistar investment	(2)	43
Minority interest	1	3
Other, net	(9)	(2)
Changes in assets and liabilities:		
Increase in trade receivables	(44)	(13)
Decrease in inventories	41	18
(Increase) decrease in other current assets	(8)	1
Increase (decrease) in trade accounts payable	25	(36)
Increase in accrued expenses and other liabilities and income taxes payable	27	4
Decrease in other liabilities	(2)	(11)
	<u>38</u>	<u>(14)</u>
Cash provided by (used in) operating activities		
Cash flows from investing activities:		
Capital expenditures	(10)	(8)
	<u>(10)</u>	<u>(8)</u>
Cash used in investing activities		
Cash flows from financing activities:		
Dividends to shareholders		(9)
Proceeds from long-term debt	16	96
Repayment of long-term debt	(70)	(66)
Increase (decrease) in notes payable and other short term borrowings	5	(1)
Proceeds from exercise of stock options	3	
	<u>(46)</u>	<u>20</u>
Cash (used in) provided by financing activities		

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Effect of exchange rate changes on cash	5	2
Decrease in cash and cash equivalents	(13)	
Cash and cash equivalents at beginning of year	209	125
Cash and cash equivalents at end of period	\$ 196	\$ 125

See Notes to Consolidated Financial Statements (Unaudited).

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MILLENNIUM CHEMICALS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

(Dollars in millions, except share data)

Note 1 Basis of Presentation

Pursuant to the rules and regulations of the Securities and Exchange Commission, the accompanying unaudited interim consolidated financial statements do not include all of the disclosures normally required by accounting principles generally accepted in the United States of America for complete financial statements. The accompanying unaudited consolidated financial statements should be read in conjunction with the financial statements and disclosures included in the Annual Report on Form 10-K of Millennium Chemicals Inc. (the Company) for the year ended December 31, 2003, as amended by Amendment No. 5 on Form 10-K/A filed with the Securities and Exchange Commission on February 14, 2005. In the opinion of management, all adjustments considered necessary to present fairly the financial position and results of operations for the interim periods are included in the accompanying unaudited consolidated financial statements.

The unaudited consolidated financial statements include the accounts of the Company and its majority-owned subsidiaries. Minority interest represents the minority ownership of the Company's Brazilian subsidiary and the La Porte Methanol Company. All significant intercompany accounts and transactions have been eliminated. The Company's 29.5% investment in Equistar Chemicals, LP (Equistar), a joint venture between the Company and Lyondell Chemical Company (Lyondell), is accounted for by the equity method; accordingly, the Company's share of Equistar's pre-tax net income or loss is included in net income or loss.