

PHELPS DODGE CORP
Form DEF 14A
April 22, 2003

SCHEDULE 14A
(Rule 14A-101)

INFORMATION REQUIRED IN PROXY STATEMENT
SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the Securities
Exchange Act of 1934 (Amendment No.)

Filed by the registrant

Filed by a party other than the registrant

Check the appropriate box:

Preliminary proxy statement
Commission only (as permitted by
Rule 14a-6(e)(2).

Confidential, for use of the

Definitive proxy statement.

Definitive additional materials.

Soliciting material pursuant to Rule 14a-12.

Phelps Dodge Corporation

(Name of Registrant as Specified in Its Charter)

(Name of Person(s) Filing Proxy Statement if Other Than the Registrant)

Payment of filing fee (check the appropriate box):

No fee required.

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(1) Title of each class of securities to which transaction applies:

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(1) Amount Previously Paid:

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(3) Filing Party:

(4) Date Filed:

**Notice of
Annual Meeting
of Shareholders
and Proxy
Statement
May 23, 2003**

J. Steven Whisler

Chairman, President and
Chief Executive Officer

April 25, 2003

Dear Shareholder:

You are cordially invited to attend our annual meeting of shareholders to be held at 8:00 a.m. (MST) on Friday, May 23, 2003, at the Phoenix Art Museum, 1625 North Central Avenue, Phoenix, Arizona. Enclosed with this proxy statement are your proxy card and the 2002 annual report, which includes the Corporation's Annual Report on Form 10-K.

Your vote is important. Whether you plan to attend or not, please access electronic voting via the internet or the automated telephone voting feature which are described on your enclosed proxy card, or you may sign, date and return the proxy card in the envelope provided. If you plan to attend the meeting you may vote in person.

Registration and seating will begin at 7:30 a.m. Each shareholder will be asked to sign an admittance card and may be asked to present a valid picture identification. Shareholders holding stock in brokerage accounts will need to bring a copy of a brokerage statement reflecting stock ownership as of the April 21 record date. Cameras and recording devices will not be permitted at the meeting.

Last year, 84% of our outstanding shares were represented in person or by proxy, and we hope to increase our shareholder participation this year.

Sincerely,

J. Steven Whisler

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

To the Shareholders of Phelps Dodge Corporation:

The annual meeting of shareholders of Phelps Dodge Corporation will be held at the Phoenix Art Museum, 1625 North Central Avenue, Phoenix, Arizona, on Friday, May 23, 2003, at 8:00 a.m., to consider and take action on the following:

1. Elect five directors;
2. Consider for approval the Phelps Dodge 2003 Stock Option and Restricted Stock Plan; and
3. Transact any other business that may properly be brought before the annual meeting.

Only holders of record of the Corporation's common shares at the close of business on April 21, 2003, will be entitled to vote at the meeting. On April 21, 2003, we had 88,985,242 common shares outstanding.

If you participate in the Mellon Investor Services LLC Investor Services Program for Phelps Dodge Corporation Shareholders, all common shares held for your account under that service will be voted in accordance with your proxy.

Proxies are solicited by the Board of Directors. You may revoke your proxy before it is voted at the annual meeting by delivering a signed revocation letter or new proxy, dated later than your first proxy, to J. Dale Brunk, Vice President, Assistant General Counsel and Secretary.

Shareholders who do not expect to attend the meeting in person are asked to access electronic voting via the internet or telephone voting as described on the enclosed proxy card or date, sign and complete the proxy card and return it without delay in the enclosed envelope, which requires no postage stamp if mailed in the United States. If you are attending in person and if you have mailed your proxy card, you may revoke your proxy and vote in person at the meeting.

This proxy statement and accompanying materials are being first sent to shareholders on April 25, 2003.

By order of the Board of Directors,

J. Dale Brunk
Vice President, Assistant General Counsel and Secretary

Phoenix, Arizona
April 25, 2003

1. ELECTION OF DIRECTORS

Board Structure

The Corporation currently has eleven directors. Nine directors are divided into three classes: two in Class I, four in Class II and three in Class III. Mr. Jack E. Thompson, was elected a director of the Corporation on December 4, 2002, effective January 1, 2003. Mr. Thompson will stand for election as a Class III director at the 2003 annual meeting of shareholders. The terms of office of three Class III directors expire at the 2003 annual meeting of shareholders. Mr. Jon C. Madonna was elected a director of the Corporation on March 5, 2003. Mr. Madonna will stand for election as a Class I director at the 2003 annual meeting of shareholders for a term of one year.

Class III and Class I Election

The four nominees for election as Class III directors and the one nominee for election as a Class I director are listed below. If elected, the nominees, as Class III directors, will serve for a term of three years and until their successors are elected and qualify. The nominee for election as a Class I director will serve for a term of one year. Unless you instruct us on the proxy card to vote differently, we will vote signed, returned proxies FOR the election of such nominees. If for any reason any nominee cannot or will not serve as a director, we may vote such proxies for the election of a substitute nominee designated by the Board of Directors.

Class III and Class I Nominees

A nominee must receive a plurality of the votes cast at the annual meeting to be elected. Abstentions and broker non-votes, therefore, have no effect on the election of directors.

Nominee	Age, Principal Occupation, Business Experience and Other Directorships Held	Director Since
Robert N. Burt (Class III)	Mr. Burt retired as Chairman of the Board and Chief Executive Officer of FMC Corporation (chemicals and machinery for industry, agriculture and government) in November 2001. He held those positions since 1991. He is a director of Pfizer Corporation and Janus Capital Group Inc. Age 65.	1993
Robert D. Krebs (Class III)	Mr. Krebs retired as Chairman of Burlington Northern Santa Fe Corporation (transportation) in April 2002. He held that position since December 2000. He was Chairman and Chief Executive Officer from June 1999 until December 2000, and Chairman, President and Chief Executive Officer from April 1997 to May 1999. Age 61.	1987

Nominee	Age, Principal Occupation, Business Experience and Other Directorships Held	Director Since
William J. Post (Class III)	Mr. Post has been Chairman of the Board of Pinnacle West Capital Corporation (holding company of subsidiaries operating, selling and delivering electricity and energy-related products and services) since February 2001 and its Chief Executive Officer since February 1999. He was the President from August 1999 to February 2001, and from February 1997 to February 1999. He is currently also Chairman of the Board of Arizona Public Service Company (APS) (supplier of electricity), a subsidiary of Pinnacle West Capital Corporation. He was Chairman of the Board and Chief Executive Officer of APS from February 2001 to September 2002, and from October 1998 to February 2001 was the Chief Executive Officer. He was APS's President and Chief Executive Officer from February 1997 to October 1998. He is a director of Blue Cross-Blue Shield of Arizona, Nuclear Electric Insurance, Ltd. and NAC International, Inc. Age 52.	2001
Jack E. Thompson (Class III)	Mr. Thompson has been the Vice Chairman of Barrick Gold Corporation (multinational gold mining company) since December 2001. From April 1999 until December 2001 he was the Chairman and Chief Executive Officer of Homestake Mining Company (multinational gold mining company) which merged with Barrick Gold Corporation in December 2001. From July 1998 until March 1999 he was the Chairman, President and Chief Executive Officer of Homestake Mining Company and its President and Chief Executive Officer from May 1996 until July 1998. He is a Director of Barrick Gold Corporation. Age 53.	2003
Jon C. Madonna (Class I)	Mr. Madonna has been Chairman of the Board of DigitalThink, Inc. (e-learning company) since April 2002. From April 2001 until March 2002 he was President and Chief Executive Officer of DigitalThink, and from January 1999 until October 2000 he was the President and Chief Executive Officer of Carlson Wagonlit Corporate Travel (business travel and expense management company). He was Vice Chairman of The Travelers Group (financial services and insurance company) from January 1997 until October 1998. Mr. Madonna was Chairman of KPMG International (international accounting and tax services company) from July 1995 to January 1996 and Chairman and Chief Executive Officer of KPMG Peat Marwick USA from 1990 until 1996. Mr. Madonna is a director of ATT, Albertsons Inc., DigitalThink, Inc., Neuberger Berman, Inc. and Tidewater Inc. Age 60.	2003

Continuing Directors The six directors whose terms will continue after the annual meeting and will expire at the 2004 annual meeting (Class I) or the 2005 annual meeting (Class II) are listed below.

Director	Age, Principal Occupation, Business Experience and Other Directorships Held	Director Since
Marie L. Knowles (Class I)	Mrs. Knowles was Executive Vice President and Chief Financial Officer of Atlantic Richfield Company (diversified energy company) from July 1996 until her retirement on June 1, 2000. From 1993 until 1996 she was Senior Vice President of Atlantic Richfield Company and President of ARCO Transportation Company, a former subsidiary of Atlantic Richfield Company. Mrs. Knowles is a director of McKesson Corporation and URS Corporation, and a trustee of the Fidelity Funds. Age 56.	1994
Gordon R. Parker (Class I)	Mr. Parker was Chairman of Newmont Mining Corporation from 1986 until his retirement in 1994. He was Chief Executive Officer from 1985 until 1993. Mr. Parker is a director of Caterpillar, Inc., Gold Fields Limited and The Williams Companies, Inc. Age 67.	1995
Archie W. Dunham (Class II)	Mr. Dunham has been Chairman of ConocoPhillips (integrated energy company) since August 2002 following the merger of Conoco Inc. and Phillips Petroleum Company in August 2002. He was Chairman of Conoco Inc. (integrated energy company) from August 1999 to August 2002, and President and Chief Executive Officer of Conoco Inc. from January 1996 to August 2002. He was an Executive Vice President of E.I. du Pont de Nemours and Company, Conoco's former parent, from 1995 to October 1998. Mr. Dunham is a director of ConocoPhillips, Louisiana Pacific Corporation and Union Pacific Corporation. Age 64.	1998
William A. Franke (Class II)	Mr. Franke was Chairman and Chief Executive Officer of America West Holdings Corporation from February 1997 and President from April 1999 until his retirement on September 1, 2001. He was Chief Executive Officer of its principal subsidiary, America West Airlines, Inc., (airline carrier) from April 1999 until his retirement on September 1, 2001 and was Chairman of its Board from 1992 until his retirement on September 1, 2001. He also was its President from April 1999 until May 24, 2000. He has been President of Franke and Company, Inc., Phoenix, Arizona, an investment firm, since 1987. He is the managing member of Air Partners III, LLC, a private equity fund focused on investments in the air transportation sector and a managing partner of Newbridge Latin America, L.P., a private equity fund with investments in that region. He is also a director of On Semiconductor, Inc. Age 66.	1980

Director	Age, Principal Occupation, Business Experience and Other Directorships Held	Director Since
Southwood J. Morcott (Class II)	Mr. Morcott was Chairman of the Board of Dana Corporation (manufacturer and distributor of automotive and vehicular parts) from 1990 until his retirement on April 30, 2000. He was Chief Executive Officer of Dana Corporation from 1989 until February 1999, and President from 1986 until 1995. Mr. Morcott is a director of CSX Corporation, Johnson Controls, Inc. and Navistar International Inc. Age 65.	1991
J. Steven Whisler (Class II)	Mr. Whisler was elected Chairman of the Corporation on May 3, 2000, and has been Chief Executive Officer since January 1, 2000. He has been President since December 1997 and was also Chief Operating Officer from December 1997 until January 1, 2000. He was President of Phelps Dodge Mining Company, a division of the Corporation, from 1991 to October 1998. He is a director of Burlington Northern Santa Fe Corporation, Southern Peru Copper Corporation and America West Holdings Corporation. Age 48.	1995

CORPORATE GOVERNANCE AND GENERAL INFORMATION

CONCERNING THE BOARD OF DIRECTORS AND ITS COMMITTEES

Board Governance

At its September 4, 2002 meeting, the Board of Directors amended its corporate governance guidelines, previously adopted in 1999, to reflect certain proposed revisions to the rules of the New York Stock Exchange (NYSE) that were released in August 2002. The proposed revisions impose new independence requirements on directors and establish minimum corporate governance standards. The Phelps Dodge Corporation Board of Directors is in compliance as of this date with the proposed revisions, and its corporate governance guidelines are published in this proxy statement beginning on page 9.

Board Meetings

The Board of Directors met eight times during 2002. Various committees of the Board also met during the year. All directors attended at least 75% of all Board and committee meetings except for Mr. Parker who, due to illness, was able to attend only 68% of all Board and committee meetings. The average attendance for all other directors was 90%.

Board Committees

The Audit Committee comprises Messrs. Franke, (Mrs.) Knowles (Chair), Krebs, Madonna (effective April 2003), Parker and Post and met eight times during 2002. In 2000, the Board of Directors adopted a written Charter of the Audit Committee which was amended at the December 2002 Board of Directors meeting to reflect new requirements arising from proposed rules issued by the NYSE and requirements of the Sarbanes-Oxley Act. The revised Charter is printed beginning on page 29 of this proxy statement. The Board of Directors determined that each member of the Committee is independent and possesses financial management expertise for purposes of the rules of the New York Stock Exchange. The Committee generally performs the following functions:

Assists the Board of Directors with oversight of: (i) the quality and integrity of the Corporation's financial statements; (ii) the Corporation's compliance with legal and regulatory requirements; (iii) the independence and qualifications of the Corporation's independent accountants; and (iv) the performance of the Corporation's internal audit function and the independent accountants;

Prepares the report of the Audit Committee to be included in the Corporation's Proxy Statement as required under the rules of the Securities and Exchange Commission; and

Provides an open avenue of communication among the independent accountants, financial and senior management, the internal auditing function, and the Board of Directors.

The Compensation and Management Development Committee, comprising Messrs. Burt, Dunham (Chair), Franke (effective April 2003), (Mrs.) Knowles, Morcott and Post met four times during 2002. At its September 4, 2002 meeting, the Board of Directors ratified the Committee's charter which is printed beginning on page 26 of this proxy statement. The Committee generally performs the following functions:

Reviews and approves the compensation of the Corporation's senior officers;

Reviews management recommendations concerning the compensation of other officers and key personnel;

Reviews the Corporation's program for management development; and

Reviews and approves incentive compensation awards, stock option grants and awards of restricted stock.

The Committee on Directors and Corporate Governance comprises Messrs. Burt (Chair), Dunham, Krebs, Madonna (effective April 2003), Morcott and Thompson (effective February 2003) and met twice during 2002. At its September 3, 2002 meeting, the Board of Directors adopted a written charter for the Committee which is printed beginning on page 13 of this proxy statement. The Committee generally performs the following functions:

Makes recommendations concerning the composition of the Board and its committees, and reviews director compensation;

Reviews the qualifications of potential director candidates and recommends to the Board nominees for election as directors; and

Develops and reviews the Board Governance Policies and makes recommendations concerning the corporate governance program for the Corporation.

The Committee on Directors and Corporate Governance will consider potential nominees recommended by shareholders. Recommendations should be sent to the Vice President, Assistant General Counsel and Secretary of the Corporation and should include the address and a brief description of the qualifications of the individual recommended.

The Environmental, Health and Safety Committee, comprising Messrs. Burt, (Mrs.) Knowles, Parker (Chair), Post and Thompson (effective February 2003), met two times in 2002. The Committee generally performs the following functions:

Reviews the Corporation's environmental, health and safety policies;

Reviews management's implementation of these policies; and

Makes reports and recommendations to the Board concerning the results of its reviews.

The Finance Committee comprises Messrs. Dunham (effective April 2003), Franke, Krebs (Chair), Madonna (effective April 2003), Morcott, Parker and Thompson (effective February 2003) and met four times during 2002. The Committee generally performs the following functions:

Reviews the financial affairs of the Corporation and its subsidiaries;

Recommends to the Board financial policies and actions to accommodate the Corporation's goals and operating strategies while maintaining a sound financial condition; and

Reviews the funding and management of assets for retirement income plans of the Corporation and its subsidiaries.

**Directors Stock
Ownership Policy**

The Board of Directors has adopted a policy that each director, within three years of his or her election, shall own a total of not less than 2,000 common shares of the Corporation. Stock units granted to a director under the Corporation's Directors Stock Unit Plan or the Deferred Compensation Plan apply toward attainment of the requirement.

Board Compensation

Retainer and Fees	Directors who are not salaried employees of the Corporation (non-employee directors) receive the following annual compensation for their Board service:
Annual Retainer:	\$36,000
Annual Committee Chair Stipend:	\$3,000 Effective January 2003, the Audit Committee Chair stipend and the Compensation and Management Development Committee Chair stipend is \$6,000.
Attendance Fees:	\$1,000 for each Board meeting \$1,000 for each Board Committee meeting Expenses related to attendance
Shares of Stock:	The foregoing retainer and fees, at the election of the Director, may be received in an equivalent number of the Corporation's common shares in lieu of cash.
Stock Units:	Number of units equal in value to \$50,000 on date of grant under the Directors Stock Unit Plan described below.

Directors Stock Unit Plan In order to encourage increased stock ownership, the Board of Directors adopted the Directors Stock Unit Plan. Pursuant to that Plan, each non-employee director receives an annual grant of stock units having a value equal to \$50,000 on the date of the grant. One unit is equal in value to one share of the Corporation's common stock. While stock units do not confer on a director the right to vote, each stock unit is credited on each dividend payment date with stock units equal to the applicable dividend payable on the Corporation's common shares. Upon termination of service as a director, the director is entitled to payment of his or her accumulated stock units in an equivalent number of the Corporation's common shares or in cash.

Directors Deferred Compensation Plan Directors may defer payment of retainer and/or meeting fees to future years and may elect to have such deferred compensation deemed to

- receive interest at prevailing market rates
- be invested in the Corporation's common shares, or
- be invested in one of several mutual funds designated for that purpose.

Expenses and Benefits All directors are reimbursed for travel and other related expenses incurred in attending shareholder, Board and committee meetings. The Corporation also provides non-employee directors with life insurance benefits.

Directors and Officers Liability Insurance

The Corporation maintains directors and officers liability insurance policies and pension trust liability policies (placed on three-year terms) issued by National Union Fire Insurance Company of Pittsburgh, Pa., Executive Risk Indemnity Inc., Continental Casualty Company, Federal Insurance Company and XL Insurance Company. The policies insure (i) directors, officers, division presidents and vice presidents of the

Corporation and its subsidiaries, and employees who are fiduciaries of employee benefit plans of the Corporation and its subsidiaries, against certain liabilities they may incur in the performance of their duties, (ii) the Corporation against its obligation to indemnify such persons against such liabilities, and (iii) the Corporation for allegations related to securities claims. On June 1, 2000, the Corporation extended those policies to June 1, 2003 at annual prepaid premiums of \$413,699, \$118,800, \$100,625, \$44,550 and \$60,720, respectively, for each of the above mentioned policies. On August 1, 2002 the Corporation purchased additional directors and officers liability insurance coverage from Corporate Officers Directors Assistance Company and Starr Excess Insurance Company. The additional coverage extends to June 1, 2003. The premiums for these policies are \$250,000 and \$150,000, respectively. These policies insure directors and officers of the Corporation and its subsidiaries against certain liabilities they may incur in the performance of their duties which are not indemnifiable under the bylaws of the Corporation.

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CORPORATE GOVERNANCE GUIDELINES OF PHELPS DODGE CORPORATION

Offices of Chairman and CEO

The By-Laws currently provide that the CEO is the Chairman. In the past, the By-Laws have been amended by the Board to accommodate the governance structure deemed appropriate at the time.

Director to Preside at Executive Sessions

The Board has adopted a policy providing that regularly scheduled executive sessions of the independent Directors shall be presided at by an independent Director who will generally be the Chair of the Committee having jurisdiction over the bulk of the issues to be discussed at such executive session.

Number of Committees

There are currently five Board committees other than the Executive Committee: Audit; Directors and Corporate Governance; Compensation and Management Development; Environmental, Health and Safety; and Finance. The Board may form new committees or disband existing committees as appropriate.

Assignment and Rotation of Committee Members

Committee assignments are made by the Board based upon recommendations of the Committee on Directors and Corporate Governance. The committee generally will consider rotating a committee chairperson or member periodically as the Committee on Directors and Corporate Governance deems appropriate.

Frequency and Length of Committee Meetings

Each committee chairperson determines the frequency and length of committee meetings in consultation with other committee members.

Committee Agenda

The chairperson of each committee determines the committee's agenda prior to the meeting giving consideration to management recommendations.

Selection of Agenda Items for Board Meeting

The Chairman establishes the agenda for each Board meeting. Individual Board members may suggest agenda items.

Board Materials Distributed in Advance

Materials pertaining to Board and committee meetings are distributed in advance of those meetings. A Director is expected to review all distributed materials prior to any Board or committee meeting that such Director attends.

Attendance of Directors at Board Meetings

Directors are expected to regularly attend meetings of the Board or its committees of which they are members.

Regular Attendance of Non-Directors at Board Meetings

Non-director executive officers regularly attend Board meetings. At least once a year, the independent Directors meet with the CEO without the other executive officers being present.

Executive Sessions of Independent Directors

The independent Directors will meet at regularly scheduled executive sessions without management.

Board Access to Management

Directors have complete access to management, however, independent Directors are expected to keep the CEO informed of such contacts. The Board encourages the attendance of officers other than executive officers at Board meetings when matters within their areas of responsibility are discussed.

Board Access to Independent Advisors

Directors have complete access, as necessary and appropriate, to the Corporation's outside advisors.

Board Compensation Review

Management provides the Committee on Directors and Corporate Governance annually with comparative information concerning director compensation. Changes in Board compensation are made by the full Board, based upon recommendations by the Committee on Directors and Corporate Governance.

Size of the Board

The By-Laws provide that the Board shall be comprised of between 9 and 12 Directors.

Mix of Inside and Independent Directors

A majority of the Board must consist of independent Directors.

Definition of Independent

A Director is independent if the Board has made an affirmative determination that such Director has no material relationship with the Corporation (either directly or as a partner, shareholder or officer of an organization that has a relationship with the Corporation). In addition:

No Director who is a former employee of the Corporation can be independent until five years after the employment has ended.

No Director who is, or in the past five years has been, affiliated with or employed by a (present or former) auditor of the company (or of an affiliate) can be independent until five years after the end of either the affiliation or the auditing relationship.

No Director can be independent if he or she is, or in the past five years has been, part of an interlocking directorate in which an executive officer of the Corporation serves on the compensation committee of another corporation that employs the Director.

No Director can be independent if he or she has an immediate family member in any of the three categories noted above until five years after such family member's relationship to the Corporation has ended.

Former Officer's Board Membership

Any Director serving as an officer of the Corporation or any subsidiary shall resign from the Board at the time such person ceases to be an officer.

Selection of New Director Candidates

The Board selects new Directors based on candidates recommended by the Committee on Directors and Corporate Governance.

Extending the Invitation to a New Potential Director to Join the Board

The CEO extends invitations to new potential Directors on behalf of the Board.

Assessing the Board's Performance

The Board conducts an annual self-evaluation in order to determine whether it and its committees are functioning effectively. The Committee on Directors and Corporate Governance oversees the Board's annual self-evaluation.

Directors Who Change Their Present Job Responsibility

A Director who experiences a significant change in job responsibilities or assignment is required to submit a resignation to the Board. The remaining Directors, upon recommendation of the Committee on Directors and Corporate Governance, then determine the appropriateness of continued Board membership.

Term Limits

There are no established term limits for service on the Board.

Mandatory Retirement Age

Board policy requires that a Director retire at the shareholders' meeting first following attainment of age 72.

Formal Evaluation of the Chief Executive Officer

The performance of the CEO is reviewed annually by the Compensation and Management Development Committee based in part on preset goals. The results of this review are reported to and discussed with the Board and separately reported to the CEO by the chairperson of the committee.

Succession Planning

Every year the CEO formally reports to the Board on succession planning. The report includes a broad review of management as well as a recommendation regarding a successor to the CEO.

Management Development

The CEO reports periodically to the Board on the training and development program for management and reviews with the Board the executives who have change of control agreements with the Corporation.

Director Orientation and Continuing Education

The Board has instituted an orientation and continuing education program for Directors.

Board Interaction with Institutional Investors, the Press, Customers, etc.

The CEO and, as appropriate, designated members of senior management speak for the Corporation.

**MEMBERSHIP CRITERIA FOR NON-EMPLOYEE
DIRECTORS OF PHELPS DODGE CORPORATION**

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It is the Corporation's desire to select individuals for nomination to the Board of Directors, who, if elected, will best serve the interests of the company and its shareholders. To accomplish this goal, each candidate nominee should:

Possess fundamental qualities of intelligence, honesty, perceptiveness, good judgment, maturity, high ethics and standards, integrity, fairness and responsibility.

Have a genuine interest in the Corporation and a recognition that as a member of the Board one is accountable to the shareholders of the Corporation, not to any particular interest group.

Have a background that demonstrates an understanding of business and financial affairs and the complexities of a large, multifaceted, global business, governmental or educational organization.

Be or have been a senior officer of a highly complex organization such as a corporation, university or major unit of government.

Have no conflict of interest or legal impediment which would interfere in a fundamental way with the duty of loyalty owed to the Corporation and its shareholders.

Have the ability and be willing to spend the time required to function effectively as a Director.

Be compatible and able to work well with other Directors and executives in a team effort with a view to a long-term relationship with the company as a Director.

Have independent opinions and be willing to state them in a constructive manner.

Be a shareholder in the Corporation (upon election to the Board or shortly thereafter).

Directors will be selected on the basis of talent and experience without regard to race, color, religion, gender, national origin, disability, or age (except as otherwise set forth herein and as permitted by applicable law). The Corporation seeks a Board with diversity of background among its members. The majority of the Board should consist of individuals who are not members of the operating management of the Corporation.

In certain circumstances it may be appropriate not to renominate current Board members prior to their mandatory retirement age (72 for non-employee Directors) if they no longer meet the criteria for membership described above. If a Director discontinues or changes the employment affiliation held at the time of election as a Director of Phelps Dodge, becomes involved in a potential, fundamental conflict of interest, becomes unable to spend the required time, or becomes disabled (such that the Director is unable to carry out the essential functions of the Director's duties and responsibilities), that Director shall submit a resignation to the Board. The Committee on Directors and Corporate Governance shall review the information presented and evaluate the appropriateness of continued membership. No member of the Committee on Directors and Corporate Governance whose Board membership is being reviewed shall participate in the review process or vote on the matter.

The Board of Directors (with the exception of the Director whose Board membership is being reviewed) shall determine the appropriateness of continued Board membership, giving consideration to the recommendation made by the Committee on Directors and Corporate Governance.

PROCEDURES FOR HANDLING UNSOLICITED

RECOMMENDATIONS FOR BOARD MEMBERSHIP

All applications, recommendations or proposed nominations for Board membership received by the Corporation will be referred to the Chairman of the Committee on Directors and Corporate Governance.

* * * * *

COMMITTEE ON DIRECTORS AND CORPORATE GOVERNANCE CHARTER

This charter (Charter) sets forth the purpose, composition, responsibilities, duties and powers of the Committee on Directors and Corporate Governance (the Committee), formerly called the Committee on Directors, of the board of directors (the Board) of Phelps Dodge Corporation (the Corporation). The Committee shall report to the Board on a regular basis and not less than once a year.

I. Purpose

The purposes of the Committee are

- (A) to identify and recommend individuals to the Board qualified to be nominated as members of the Board and its committees;
- (B) to make recommendations concerning the composition of the Board and of its committees;
- (C) to review and make recommendations regarding director compensation; and
- (D) to develop and recommend to the Board a set of corporate governance principles for the Corporation.

II. Composition

(A) The Committee shall consist of at least three members. Nominees to fill vacancies in the Committee shall be nominated by the Committee as set forth below and appointed by the Board. Members shall serve at the pleasure of the Board and for such term or terms as the Board may determine.

(B) Each member of the Committee shall be independent under the rules of the New York Stock Exchange as such requirements are interpreted by the Board in its business judgment.

III. Structure and Operations

The Board shall designate one member of the Committee as its chairperson. The affirmative vote of a majority of the members of the Committee is necessary for the adoption of any resolution. The Committee shall meet at least twice a year at a time and place determined by the Committee chairperson, with further meetings to occur when deemed necessary or desirable by the Committee or the Committee chairperson. Members of the Committee may participate in a meeting of the Committee by means of conference call or similar communications equipment by means of which all persons participating in the meeting can hear each other.

The Committee has the authority to create one or more subcommittees of members of the Committee and delegate, in its discretion, all or a portion of its duties and responsibilities to such subcommittees.

IV. Goals and Responsibilities

To fulfill its goals and responsibilities, the Committee shall:

Board

(A) Identify individuals believed to be qualified to become Board members, and to recommend to the Board the nominees to stand for election as directors at the annual meeting of shareholders or, if applicable, at a special meeting of shareholders. In the case of a vacancy in the office of a director (including a vacancy created by an increase in the size of the Board), the Committee shall recommend to the Board an individual to fill such vacancy through appointment by a majority of the Corporation's directors. In recommending director nominees, the Committee shall take into consideration such factors as it deems appropriate which, for non-employee directors, shall include the criteria set forth in the Membership Criteria for Non-Employee Directors of Phelps Dodge Corporation which are attached as an annex to the Corporation's corporate governance guidelines. The Committee will consider candidates

proposed by the Corporation's shareholders. The Committee may consider candidates proposed by management.

(B) In the case of a director nominee appointed to fill a Board vacancy created by an increase in the size of the Board, make a recommendation to the Board as to the class of directors in which such director nominee should serve.

(C) Make recommendations to the Board from time to time as to changes to the size of the Board that the Committee believes to be desirable.

Board Committees

(D) Identify Board members qualified to fill vacancies on any committee of the Board (including the Committee) and to recommend that the Board appoint the identified member or members to the respective committee. In recommending a member for committee membership, the Committee shall take into consideration the factors set forth in the charter of the committee, if any, as well as any other factors it deems appropriate, including without limitation, the Corporation's corporate governance principles, the consistency of the member's experience with the goals of the committee and the interplay of the member's experience with the experience of the other committee members.

Oversight

(E) Establish procedures for the Committee to exercise oversight of the evaluation of the Board and management.

(F) Develop and recommend to the Board a set of corporate governance principles for the Corporation, and to review those principles at least once a year.

(G) Prepare and provide to the Board an annual performance evaluation (the Performance Evaluation) of the Committee, which shall compare the performance of the Committee with the requirements of this Charter. The Performance Evaluation shall be conducted in such manner as the Committee deems appropriate and shall recommend to the Board any improvements to this Charter deemed necessary or desirable by the Committee. The report to the Board may take the form of an oral report by the Committee chairperson or any other member of the Committee designated by the Committee to make such report.

Other

(H) Perform any other duties or responsibilities expressly delegated to the Committee by the Board from time to time relating to the nomination of Board and committee members.

V. Resources and Authority

The Committee shall have the resources and authority to appropriately discharge its duties and responsibilities, including the authority, without seeking approval from the Board, to retain counsel and other experts or consultants as the Committee determines to be necessary or advisable. The Committee shall have the sole authority, without seeking approval from the Board, to: (i) select and retain a consultant or search firm to be used to identify director candidates; (ii) terminate any consultant or search firm retained by it; and (iii) approve the consultant or search firm's fees and other retention terms.

**COMPENSATION COMMITTEE INTERLOCKS
AND INSIDER PARTICIPATION**

The following directors served on the Compensation and Management Development Committee during 2002: Messrs. Burt, Dunham, (Mrs.) Knowles, Morcott, Post and Hazen (Chair), who retired from the Board in February 2003. None of these directors is or has been an officer or employee of the Corporation or any of its subsidiaries or has had any other relationship with the Corporation or any of its subsidiaries requiring disclosure under the applicable rules of the Securities and Exchange Commission.

SHARE OWNERSHIP OF DIRECTORS AND EXECUTIVE OFFICERS

The following table lists the common share ownership as of April 1, 2003 for our directors and the five named executive officers.

Beneficial Ownership includes shares a director or officer has the power to vote or transfer, and stock options that were exercisable on April 1, 2003 or within 60 days thereafter. On April 1, 2003, the directors and the five named executive officers of the Corporation owned, in the aggregate, 1,659,040 shares of the Corporation's common stock (approximately 1.86 percent of the shares outstanding). The Corporation's non-employee directors also have interests in stock-based units under Corporation plans. While these units may not be voted or transferred, they are listed in the table below because they represent a component of the total economic interest of our directors in the Corporation's stock.

Name of Beneficial Owner	Shares Beneficially Owned	Options Exercisable Within 60 Days	Stock Units(1)	Total
Robert N. Burt	2,437	3,444	6,343(2)	12,224
S. David Colton	20,997(3)	107,933	0	128,930
Archie W. Dunham	1,000	0	10,226(2)	11,226
William A. Franke	2,000	9,184	7,064	18,248
Paul Hazen(4)	587	9,184	15,396(2)	25,167
Marie L. Knowles	1,000	2,296	6,092	9,388
Robert D. Krebs	2,156	8,036	6,672	16,864
Jon C. Madonna	1,000	0	0	1,000
Arthur R. Miele	10,703(3)	112,666	0	123,369
Southwood J. Morcott	2,050	5,740	11,806(2)	19,596
Gordon R. Parker	3,122	2,296	6,231	11,649
Ramiro G. Peru	54,441(3)	175,564	0	230,005
William J. Post	1,000	0	3,125	4,125
Timothy R. Snider	49,118(3)	219,237	0	268,355
Jack E. Thompson	2,000	0	0	2,000
J. Steven Whisler	156,384(3)	620,510	0	776,894
Directors and executive officers as a group	309,995	1,276,090	72,955	1,659,040

(1) Except where indicated below, represents stock units awarded under the Directors Stock Unit Plan.

(2) Includes stock units awarded under the Directors Deferred Compensation Plan.

(3) Includes the following shares of restricted stock awarded under the 1998 Stock Option and Restricted Stock Plan: Mr. Whisler, 80,000 shares; Mr. Peru, 42,500 shares; Mr. Snider, 34,500 shares; Mr. Miele 4,029 shares; and Mr. Colton, 13,700 shares.

(4) Mr. Hazen retired as a director effective February 12, 2003.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Based on a review of reports filed by our directors, executive officers and beneficial holders of 10% or more of our outstanding shares, and upon representations from those persons, all reports required to be filed by our reporting persons during 2002 were filed on time.

To the knowledge of the Corporation, the following entities beneficially owned in excess of five percent of the Corporation's common shares as of December 31, 2002:

Name and Address	Number of Shares	Percent of Outstanding
FMR Corp.(a) 82 Devonshire Street Boston, MA 02109	7,533,934	8.46%
Capital Research and Management Company(b) 333 South Hope Street Los Angeles, CA 90071	6,694,220	7.50%
Merrill Lynch & Co., Inc.(c) 800 Scudders Mill Road Plainsboro, NJ 08536	5,377,882	6.05%
Maverick Capital, Ltd.(d) 300 Crescent Court Dallas, TX 75201	5,007,500	5.60%

- (a) A report on Schedule 13G, dated February 14, 2003, disclosed that this entity, as a registered investment advisor, had sole voting power over 640,544 shares and sole dispositive power over 7,533,934 shares which represented 8.46% of the outstanding common shares at December 31, 2002. Shares reported by FMR Corp. include 100,000 shares resulting from the assumed conversion of 40,000 shares of the 6.75% Series A Mandatory Convertible Preferred Shares due August 15, 2005.
- (b) A report on Schedule 13G, dated February 10, 2003, disclosed that this entity, as a registered investment advisor, had sole dispositive power over 6,694,220 shares which represented 7.5% of the outstanding common shares at December 31, 2002. Shares reported by Capital Research and Management Company include 500,000 shares resulting from the assumed conversion of 200,000 shares of the 6.75% Series A Mandatory Convertible Preferred Shares due August 15, 2005.
- (c) A report on Schedule 13G, dated January 14, 2003, disclosed that this entity, as a registered investment advisor, and filing on behalf of Merrill Lynch Investment Managers, an operating division of Merrill Lynch & Co., Inc.'s indirectly-owned asset management subsidiaries, had shared voting power and shared dispositive power over 5,377,882 shares which represented 6.05% of the outstanding common shares at December 31, 2002.
- (d) A report on Schedule 13G, dated February 13, 2003, disclosed that this entity, as a registered investment advisor, had sole voting power and sole dispositive power over 5,007,500 shares, which represented 5.60% of the outstanding common shares at December 31, 2002.

EQUITY COMPENSATION PLAN INFORMATION

In millions, except per share amounts

December 31, 2002	(a)	(b)	(c)(1)
Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted-average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a))
Equity compensation plans approved by security holders	8,934,601	\$55.36	883,012
Equity compensation plans not approved by security holders	0		0
Total	8,934,601	\$55.36	883,012

- (1) Of the 883,012 shares available for grants as of 12/31/02 under the shareholder-approved 1998 Plan, 818,191 shares may be issued as Restricted Shares.

EXECUTIVE COMPENSATION

The following table summarizes the compensation we paid our five most highly compensated executive officers in 2002, 2001 and 2000.

Summary Compensation Table**Long-Term**