MILLENNIUM CHEMICALS INC
Form 10-Q/A
August 14, 2002

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q/A

AMENDMENT NO. 1

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2002

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)

| | |
|---|---|
| Delaware | 22-3436215 |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |

230 Half Mile Road
Red Bank, NJ 07701
(Address of principal executive offices)

732-933-5000
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

| Title of each class | Name of each exchange on which registered |
|---|---|
| Common Stock, par value $0.01 per share | New York Stock Exchange |

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 [X] No [ ].

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 62,914,879 shares of Common Stock, par value $.01 per share, as of April 30, 2002, excluding 14,981,707 shares held by the registrant, its subsidiaries and certain Company trusts, which are not entitled to vote.

================================================================================

EXPLANATORY NOTE

Millennium Chemicals Inc. (the "Company") is filing this amendment to its Form 10-Q for the quarterly period ended March 31, 2002 to revise Note 13 - Supplemental Financial Information - to the Company's consolidated financial statements included on pages 15 through 18 of such Form 10-Q. The Supplemental Financial Information in this amendment has been revised to disclose the financial position, results of operations and cash flows of (i) the Company, (ii) Millennium America Inc., an indirect, wholly owned subsidiary of the Company ("Millennium America"), and (iii) all subsidiaries of the Company other than Millennium America, to reflect Millennium America's and the Company's shareholders' equity as if each of those companies and their respective subsidiaries were reported on a consolidated basis. The information included in the columns headed "Millennium Chemicals Inc. and Subsidiaries" is unchanged. Item 1, as amended, is hereby provided in its entirety. There are no changes to the Form 10-Q as originally filed, other than these changes to Note 13.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

MILLENNIUM CHEMICALS INC.

CONSOLIDATED BALANCE SHEETS
(Millions, except share data)

| | March 31, 2002 | Decemb 200 |
|---|---|---|
| **ASSETS** | | |
| Current assets | | |
| Cash and cash equivalents | $ 71 | $ 1 |
| Trade receivables, net | 211 | 2 |
| Inventories | 329 | 3 |
| Other current assets | 80 | |
| Total current assets | 691 | 7 |
| Property, plant and equipment, net | 866 | 8 |
| Investment in Equistar | 610 | 6 |
| Deferred income taxes | 96 | |
| Other assets | 244 | 2 |
| Goodwill | 103 | 3 |
| Total assets | $2,610 | $3,0 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | |
| Current liabilities | | |
| Notes payable | $ 5 | $ |
| Current maturities of long-term debt | 13 | |
| Trade accounts payable | 164 | 2 |
| Income taxes payable | 5 | |
| Accrued expenses and other liabilities | 136 | 1 |
| Total current liabilities | 323 | 3 |
| Long-term debt | 1,175 | 1,1 |
| Other liabilities | 550 | 5 |
| Total liabilities | 2,048 | 2,1 |
| Commitments and contingencies (Note 10) | | |
| Minority interest | 22 | |
| Shareholders' equity | | |
| 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, 2002 and December 31, 2001) | 1 | |
| Paid in capital | 1,299 | 1,2 |
| Retained deficit | (365) | ( |
| Cumulative other comprehensive loss | (131) | (1 |
| Treasury stock, at cost (14,996,416 and 14,594,614 shares at March 31, 2002 and December 31, 2001, respectively) | (281) | (2 |
| Deferred compensation | 17 | |
| Total shareholders' equity | 540 | 8 |
| Total liabilities and shareholders' equity | $2,610 | $3,0 |

See Notes to Consolidated Financial Statements.

2

MILLENNIUM CHEMICALS INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(Millions, except share data)

| | Three Months Ended March 31, 2002 | Three Months Ended March 31, 2001 |
|---|---|---|
| Net sales | $ 351 | $ 444 |
| Operating costs and expenses | | |
| Cost of products sold | 292 | 343 |
| Depreciation and amortization | 25 | 28 |
| Selling, development and administrative expense | 23 | 43 |
| Reorganization and other charges | -- | 5 |
| Operating income | 11 | 25 |
| Interest expense | (22) | (22) |
| Interest income | 1 | 1 |
| Equity in loss of Equistar | (39) | (24) |
| Other expense, net | (1) | -- |
| Loss before income taxes, minority interest and cumulative effect of accounting change | (50) | (20) |
| Benefit from income taxes | 20 | 6 |
| Loss before minority interest and cumulative effect of accounting change | (30) | (14) |
| Minority interest | (1) | (1) |
| Loss before cumulative effect of accounting change | (31) | (15) |
| Cumulative effect of accounting change | (305) | -- |
| Net loss | $ (336) | $ (15) |
| Basic and diluted loss per share: | | |
| Before cumulative effect of accounting change | $(0.49) | $(0.24) |
| From cumulative effect of accounting change | (4.80) | -- |
| After cumulative effect of accounting change | $(5.29) | $(0.24) |

See Notes to Consolidated Financial Statements.

3

MILLENNIUM CHEMICALS INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Millions)

| | Three Months Ended March 31, 2002 | Three Months Ended March 31, 2001 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Net loss | $(336) | $ (15) |
| Adjustments to reconcile net loss to net cash (used in) provided by operating activities | | |
| Cumulative effect of accounting change | 305 | -- |
| Depreciation and amortization | 25 | 28 |
| Deferred income tax benefit | (24) | (3) |
| Equity in loss of Equistar | 39 | 24 |
| Minority interest | 1 | 1 |
| Other, net | (1) | (1) |
| Changes in assets and liabilities | | |
| Increase in trade receivables | (39) | (1) |
| Decrease in inventories | 42 | 6 |
| (Increase) decrease in other current assets | (16) | 3 |
| Increase in other assets | (2) | (8) |
| Decrease in trade accounts payable | (58) | (14) |
| Decrease in accrued expenses and other liabilities and income taxes payable | (1) | -- |
| Decrease in other liabilities | (11) | (14) |
| Cash (used in) provided by operating activities | (76) | 6 |
| **Cash flows from investing activities** | | |
| Capital expenditures | (13) | (28) |
| Proceeds from sales of property, plant & equipment | -- | 2 |
| Proceeds from securitization of trade receivables, net of expenses | 43 | -- |
| Cash provided by (used in) investing activities | 30 | (26) |
| **Cash flows from financing activities** | | |
| Dividends to shareholders | (9) | (9) |
| Proceeds from long-term debt | 97 | 25 |
| Repayment of long-term debt | (87) | (54) |

| | | |
|---|---|---|
| Increase in notes payable | 1 | 11 |
| Cash provided by (used in) financing activities | 2 | (27) |
| Effect of exchange rate changes on cash | 1 | (2) |
| Decrease in cash and cash equivalents | (43) | (49) |
| Cash and cash equivalents at beginning of year | 114 | 107 |
| Cash and cash equivalents at end of period | $ 71 | $ 58 |

See Notes to Consolidated Financial Statements.



MILLENNIUM CHEMICALS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(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 generally accepted accounting principles for complete financial statements. The accompanying consolidated financial statements should be read in conjunction with the financial statements and disclosures included in the Company's most recent Annual Report on Form 10-K for the year ended December 31, 2001. In the opinion of management, the accompanying consolidated financial statements contain all adjustments necessary to present fairly the financial position and results of operations for the interim periods.

The 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. All significant intercompany accounts and transactions have been eliminated. The Company's 29.5% investment in Equistar, a joint venture between the Company, Lyondell Chemical Company ("Lyondell") and Occidental Petroleum Corporation ("Occidental"), is accounted for by the equity method; accordingly, the Company's share of Equistar's pre-tax net loss is included in the Company's net loss. Certain prior year balances have been reclassified to conform to the current year presentation including segment analysis presented in Note 11.

Note 2 - Recent Accounting Developments

In June 2001, the Financial Accounting Standards Board ("FASB") issued

Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Intangible Assets" ("SFAS No. 142"). Under this new standard, all goodwill, including goodwill acquired before initial application of the standard, is not amortized but must be tested for impairment at least annually at the reporting unit level, as defined in the standard. The Company and Equistar adopted this standard on January 1, 2002. Accordingly, the Company reported a charge for the cumulative effect of this accounting change of $275 in the first quarter of 2002 to write off certain of its goodwill related to its Acetyls business based upon the Company's estimate of fair value for this business using various valuation methods considering expected future profitability and cash flows. Additionally, Equistar reported an impairment of its goodwill in the first quarter of 2002. The write-off at Equistar required an adjustment of $30 to reduce the carrying value of the Company's investment in Equistar to its approximate proportional share of Equistar's Partners' capital, which the Company also reported as a charge for the cumulative effect of this accounting change. Amortization expense for the three months ended March 31, 2001 for goodwill that was recorded on the Company's balance sheet was $3. Additionally, the Company's share of amortization expense reported by Equistar for the three months ended March 31, 2001 for its goodwill, included in Equity in loss of Equistar, was $2. Following is a reconciliation of the reported net loss to net loss adjusted for goodwill amortization and the cumulative effect of the accounting change and related per share amounts:

| | Three Months Ended March 31, 2002 | | Th |
|---|---|---|---|
| | Amount | Per Share | Amo |
| Reported net loss.......................................... | $(336) | $(5.29) | $ |
| Goodwill amortization...................................... | - | - | |
| Equistar goodwill amortization included in Equity in loss of Equistar.......................... | - | - | |
| Adjusted loss before cumulative effect of accounting change | (336) | (5.29) | |
| Cumulative effect of accounting change...................... | 305 | 4.80 | |
| Adjusted net loss.......................................... | $ (31) | $(0.49) | $ |



MILLENNIUM CHEMICALS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (Continued)

(Dollars in millions, except share data)

Note 2 - Recent Accounting Developments - Continued

In July 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations" ("SFAS No. 143"). SFAS No. 143 applies to legal obligations associated with the retirement of long-lived assets. This standard requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred and the associated asset retirement costs be capitalized as part of the carrying amount of the long-lived asset. Accretion expense and depreciation expense related to the liability and capitalized asset retirement costs, respectively, would be recorded in subsequent periods. Although earlier application is permitted, the Company must adopt this standard on January 1, 2003 and currently is evaluating the potential impact on its consolidated financial position and results of operations.

Note 3 - Significant Transactions

In March 2002, the Company transferred its interest in certain European trade receivables to an unaffiliated third party as the basis for issuing commercial paper, totaling approximately $51, and received proceeds of $43 upon completion of a securitization transaction under a revolving arrangement with a one year term, which is treated, in part, as a sale under generally accepted accounting principles. Accordingly, the transferred trade receivables that qualify as a sale, approximately $43, were removed from the Company's Consolidated Balance Sheet. The Company continues to carry its retained interests in a portion of the transferred assets that do not qualify as a sale, approximately $8, in Trade receivables, net in its Consolidated Balance Sheet at amounts that approximate net realizable value based upon the Company's historical collection rate for these trade receivables. The loss on sale associated with this transaction was not significant. Administration and servicing of the trade receivables under the transaction remains with the Company. Servicing liabilities associated with the transaction are not significant. Proceeds from this transaction were used to pay down debt.

Note 4 - Inventories

Inventories are stated at the lower of cost or market value. For certain United States operations representing 22% and 27% of consolidated inventories at March 31, 2002 and December 31, 2001, respectively, cost is determined under the last-in, first-out ("LIFO") method. The first-in, first-out ("FIFO") method, or methods that approximate FIFO, are used by all other subsidiaries.

| | March 31, 2002 | December 31, 2001 |
|---|---|---|
| Inventories | | |
| Finished products | $183 | $204 |
| In-process products | 25 | 21 |
| Raw materials | 70 | 93 |
| Other inventories | 51 | 52 |
| | $329 | $370 |

Note 5 - Reorganization and Other Charges

During the first quarter of 2001, the Company announced the closure of its facilities in Cincinnati, Ohio and recorded reorganization and other charges of $5 in the Acetyls segment. These charges included $3 of severance and other termination benefits related to the termination of about 35 employees involved in technical, marketing and administrative activities, as well as $2 related to the write-down of assets, lease termination costs and other charges associated with the Cincinnati facility. The office in Cincinnati was closed during the second quarter of 2001.



MILLENNIUM CHEMICALS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (Continued)
(Dollars in millions, except share data)

Note 6 - Earnings per Share

The weighted-average number of equivalent shares of common stock outstanding used in computing earnings per share is as follows:

| | Three Months Ended March 31, 2002 | Three Months Ended March 31, 2001 |
|---|---|---|
| Weighted average common stock outstanding - basic and diluted....... | 63,476,591 | 63,509,577 |

The calculation of diluted earnings per share for the three months ended March 31, 2002 does not include 91,740 options to purchase common stock, 78,944 restricted shares issued under a Company incentive plan, and 220,995 shares held by certain of the Company's employee benefit plan trusts. The calculation of diluted earnings per share for the three months ended March 31, 2001 does not include 3,125 options to purchase common stock and 330,938 restricted shares issued under a Company incentive plan. The effect of including these options and shares would be antidilutive.

Note 7 - Comprehensive Loss

(Dollars in millions, except share data)

The following table sets forth the components of other comprehensive loss and total comprehensive loss:

| | Three Months Ended March 31, 2002 | Three Months Ended March 31, 2001 |
|---|---|---|
| Net loss | $(336) | $(15) |
| Other comprehensive income (loss) | | |
| Net gains (losses) on derivative financial instruments | 5 | (6) |
| Minimum pension liability adjustment | 1 | - |
| Currency translation adjustment | (1) | (28) |
| Total comprehensive loss | $(331) | $(49) |

Note 8 - Long-Term Debt and Credit Arrangements

In 2001, Millennium America Inc. ("Millennium America"), a wholly owned indirect subsidiary of the Company, entered into a five-year Credit Agreement (the "Credit Agreement") and issued $275 of seven-year 9.25% Senior Notes due June 15, 2008 (the "9.25% Senior Notes"). The Credit Agreement includes a revolving credit portion with total availability of $175 (the "Revolving Loans"), and a term loan portion (the "Term Loans"). The Company and Millennium America guarantee the obligations under the Credit Agreement.

The Revolving Loans are available in US dollars, pounds sterling and euros. The Revolving Loans may be borrowed, repaid and reborrowed from time to time. The Revolving Loans include a $50 letter of credit subfacility and a swingline facility in the amount of $25. The Term Loans may be prepaid in part or in total at the option of the Company at any time, but amounts prepaid may not be reborrowed. The interest rates on the Revolving Loans and the Term Loans are floating rates based upon margins over LIBOR, NIBOR, or the Administrative Agent's prime lending rate, as the case may be. Such margins, as well as the facility fee, are based on the Company's Leverage Ratio, as defined.

Note 8 - Long-Term Debt and Credit Arrangements - Continued

The Credit Agreement contains various restrictive covenants and requires that the Company meet certain financial performance criteria. The financial covenants in the Credit Agreement include a Leverage Ratio and an Interest Coverage Ratio. The Leverage Ratio is the ratio of total indebtedness to cumulative EBITDA for the prior four fiscal quarters, each as defined. The Interest Coverage Ratio is the ratio of cumulative EBITDA for the prior four fiscal quarters to Net Interest Expense, for the same period, each as defined. In the fourth quarter of 2001, the Company requested and obtained an amendment to these and certain other covenants given the difficult business environment at the time, which continued in early 2002. The Company is required to maintain a Leverage Ratio of no more than 6.75 to 1.00 for the first and second quarters of 2002, 6.50 to 1.00 for the third quarter of 2002 and 6.00 to 1.00 for the fourth quarter of 2002 and an Interest Coverage Ratio of no less than 2.00 to 1.00 for all quarters of 2002. The Company was in compliance with these amended covenants at March 31, 2002. Economic and business conditions are expected to improve during the remainder of 2002. However, if such conditions do not improve adequately and the Company operates at levels similar to those of the first quarter of 2002, the Company may be required to request either a waiver of, or an amendment to, one or both of these financial covenants in any subsequent quarter. The Company believes it would be able to obtain such waiver or amendment if required. This situation is monitored frequently in order to assess the likelihood of such compliance. The covenants in the Credit Agreement also limit, among other things, the ability of the Company and/or certain subsidiaries of the Company to: (i) incur debt and issue preferred stock; (ii) create liens; (iii) engage in sale/leaseback transactions; (iv) declare or pay dividends on, or purchase, the Company's stock; (v) make restricted payments; (vi) engage in transactions with affiliates; (vii) sell assets; (viii) engage in mergers or acquisitions; (ix) engage in domestic accounts receivable securitization transactions; (x) increase the amount of the $750 indemnity by Millennium America related to certain Equistar long-term debt (as described below in this note); and (xi) enter into restrictive agreements. In the event the Company sells certain assets as specified in the Credit Agreement, the Term Loans must be prepaid with a portion of the net cash proceeds of such sale. The obligations under the Credit Agreement are collateralized by: (1) a pledge of 100% of the stock of the Company's existing and future domestic subsidiaries and 65% of the stock of certain of the Company's existing and future foreign subsidiaries, in both cases other than subsidiaries that hold immaterial assets (as defined in the Credit Agreement), (2) all the equity interests held by the Company's subsidiaries in Equistar and the La Porte Methanol Company (which pledges are limited to the right to receive distributions made by Equistar and the La Porte Methanol Company, respectively), and (3) all present and future accounts receivable, intercompany indebtedness and inventory of the Company's domestic subsidiaries, other than subsidiaries that hold immaterial assets.

The Company had $37 outstanding (outstanding borrowings of $30 and outstanding letters of credit of $7) and $44 outstanding (outstanding borrowings of $35 and outstanding letters of credit of $9) of the maximum available credit line of $175 under the revolving credit portion of the Credit Agreement at March 31, 2002 and April 30, 2002, respectively and $115 outstanding under the term loan portion of the Credit Agreement at March 31, 2002 and April 30, 2002, respectively. In addition to letters of credit outstanding under the Credit Agreement, the Company had outstanding letters of credit under other arrangements of $16 and $17 at March 31, 2002 and April 30, 2002, respectively. The Company had unused availability under short-term uncommitted lines of credit, other than the Credit Agreement, of $45 and $46 at March 31, 2002 and April 30, 2002, respectively.

Millennium America also has outstanding $500 aggregate principal amount of 7.00% Senior Notes due November 15, 2006 (the "7.00% Senior Notes") and $250 aggregate principal amount of 7.625% Senior Debentures due November 15, 2026 (the "7.625% Senior Debentures") that are guaranteed by the Company. The indenture under which the Senior Notes and Senior Debentures were issued contains certain covenants that limit, among other things: (i) the ability of Millennium America and its Restricted Subsidiaries (as defined) to grant liens or enter into sale/leaseback transactions; (ii) the ability of the Restricted Subsidiaries to incur additional indebtedness; and, (iii) the ability of Millennium America and the Company to merge, consolidate or transfer substantially all of their respective assets. This indenture allows the Company to grant security on loans of up to 15% of Consolidated Net Tangible Assets, as defined, of Millennium America. Any reduction in Consolidated Net Tangible Assets below $1.933 billion would reduce the Company's availability under the revolving credit portion of the Credit Agreement.

The 9.25% Senior Notes were issued by Millennium America and are guaranteed by the Company. The indenture under which the 9.25% Senior Notes were issued contains certain covenants that limit, among other things, the ability of the Company and/or certain subsidiaries of the Company to: (i) incur additional debt; (ii) issue redeemable stock and preferred stock; (iii) pay dividends or make distributions; (iv) repurchase capital stock;





Note 8 - Long-Term Debt and Credit Arrangements - Continued

(v) make other restricted payments including, without limitation, investments; (vi) create liens; (vii) redeem debt that is junior in right of payment to the 9.25% Senior Notes; (viii) sell or otherwise dispose of assets, including capital stock of subsidiaries; (ix) enter into arrangements that restrict dividends from subsidiaries; (x) enter into mergers or consolidations; (xi) enter into transactions with affiliates; and, (xii) enter into sale/leaseback transactions. However, if the 9.25% Senior Notes receive credit ratings from both Standard & Poor's ("S&P") and Moody's Investor Services, Inc. ("Moody's") as specified in the indenture and meet certain other requirements, certain of these covenants will no longer apply. The indenture governing the Company's 9.25% Senior Notes includes a Consolidated Coverage Ratio, defined as the ratio of the aggregate amount of EBITDA, as defined, for the four most recent fiscal quarters to Consolidated Interest Expense, as defined, for the four most recent fiscal quarters. If this ratio were to cease to be greater than 2.00 to 1.00, there would be certain restrictions on the Company's ability to incur additional indebtedness and the Company's ability to pay dividends, repurchase capital stock or make certain other restricted payments would be limited.

At March 31, 2002, the Company was in compliance with all covenants in the indentures governing the 9.25% Senior Notes, 7.00% Senior Notes and 7.625% Senior Debentures.

Millennium America has entered into an indemnity agreement with Equistar pursuant to which Millennium America may be required to contribute to Equistar an amount equal to up to the lesser of $750 or the sum of the principal amount outstanding under the term loan portion of Equistar's credit facility (not to exceed $275) and Equistar's 10.125% Senior Notes due 2008 (not to exceed $475), in each case together with interest. However, pursuant to the terms of this indemnity agreement, Millennium is only required to pay this amount to Equistar if the lenders under such credit facility or the holders of such Senior Notes have not been able to obtain payment after pursuing and exhausting all their remedies against Equistar, including the liquidation of Equistar's assets. The indemnity expressly does not create any right in favor of such lenders or such holders or any person other than Millennium America, Equistar and the partners in Equistar. The indemnity may be amended or terminated at any time by the agreement of the partners in Equistar without the consent of the lenders under such credit facility or the holders of such Senior Notes. The indemnity agreement replaced a prior guarantee by Millennium America of up to $750 of Equistar's debt.

The indemnity will remain in effect indefinitely but at any time after December 31, 2004 Millennium America may, without the consent of the other partners in Equistar, elect to terminate the indemnity if certain conditions are met including financial ratios and covenants relating to Equistar. In addition, Millennium America may, without the consent of the other partners in Equistar, elect to terminate the indemnity in the event the Company sells its interests in the subsidiaries that directly hold the partnership interests of Equistar or if those subsidiaries sell their interests in Equistar, provided a financial condition relating to Equistar is met.

Note 9 - Derivative Instruments and Hedging Activities

The Company is exposed to market risk, such as changes in currency exchange rates, interest rates and commodity pricing. To manage the volatility relating to these exposures, the Company selectively enters into derivative transactions pursuant to the Company's policies for hedging practices. Designation is performed on a specific exposure basis to support hedge accounting. The changes in fair value of these hedging instruments are offset in part or in whole by corresponding changes in the fair value or cash flows of the underlying exposures being hedged. The Company does not hold or issue derivative financial instruments for speculative or trading purposes.

Foreign Currency Exposure Management: The Company manufactures and sells its products in a number of countries throughout the world and, as a result, is exposed to movements in foreign currency exchange rates. The primary purpose of the Company's foreign currency hedging activities is to manage the volatility associated with foreign currency purchases and foreign currency sales. The Company utilizes forward exchange contracts with various terms. As of March 31, 2002, these contracts had expiration dates no later than December 2002.

The Company utilizes forward exchange contracts with contract terms normally lasting less than three months to protect against the adverse effect that exchange rate fluctuations may have on foreign currency denominated trade receivables and trade payables. These derivatives have not been designated as hedges for accounting purposes. The gains and losses on both the derivatives and the foreign currency denominated trade receivables and payables are

MILLENNIUM CHEMICALS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (Continued)
(Dollars in millions, except share data)

Note 9 - Derivative Instruments and Hedging Activities - Continued

recorded in current earnings. Net gains included in earnings, which offset a similar amount of losses from foreign currency denominated trade receivables and payables, were $2 in the three months ended March 31, 2002.

In addition, the Company utilizes forward exchange contracts that qualify as cash flow hedges. These are intended to offset the effect of exchange rate fluctuations on forecasted sales and inventory purchases. Gains and losses on these instruments are deferred in other comprehensive income ("OCI") until the underlying transaction is recognized in earnings. The earnings impact is reported either in Net sales or Cost of products sold to match the underlying transaction being hedged. During the three months ended March 31, 2002, net gains on forward exchange contracts designated as cash flow hedges reclassified to earnings to match the gain or loss on the underlying transaction being hedged were not significant. Hedge ineffectiveness had no significant impact on earnings for the first quarter of 2002. No forward exchange contract cash flow hedges were discontinued during the first quarter of 2002. The Company estimates that approximately $3 of net gains on foreign currency cash flow hedges included in OCI at March 31, 2002 will be reclassified to earnings during the next twelve months.

Commodity Price Risk Management: Raw materials used by the Company are subject to price volatility caused by demand and supply conditions and other unpredictable factors. The Company selectively uses commodity swap arrangements to manage the volatility related to anticipated purchases of natural gas with various terms. As of March 31, 2002, these swaps had expiration dates no later than January 2004. These market instruments are designated as cash flow hedges. The mark-to-market gain or loss on qualifying hedges is included in OCI to the extent effective, and reclassified into Cost of products sold in the period during which the hedged transaction affects earnings. The mark-to-market gains or losses on ineffective portions of hedges are recognized in Cost of products sold immediately. During the three months ended March 31, 2002, net losses on commodity swaps designated as cash flow hedges of $2 were reclassified to Cost of products sold to match the gain on the underlying transaction being hedged. Hedge ineffectiveness had no significant impact on earnings for the first quarter of 2002. No commodity swap cash flow hedges were discontinued in the first quarter of 2002. The Company estimates that approximately $4 of net losses on commodity swaps included in OCI at March 31, 2002 will be reclassified to earnings during the next twelve months.

Interest Rate Risk Management: The Company selectively uses derivative instruments to manage its ratio of debt bearing fixed interest rates to debt bearing variable interest rates. During the three months ended March 31, 2002, the Company entered into interest-rate swap agreements, designated as fair value hedges, to synthetically convert $300 notional amount of its fixed-rate debt into variable-rate debt. The gains and losses on both the interest rate swaps and the hedged portion of the underlying debt are recorded in Interest expense. All existing fair value hedges are completely effective; therefore, there is no impact to earnings due to hedge ineffectiveness.

Note 10 - Commitments and Contingencies

Legal and Environmental: The Company and various of its subsidiaries are defendants in a number of pending legal proceedings relating to present and former operations. These include proceedings alleging injurious exposure of the plaintiffs to various chemicals and other materials on the premises of, or manufactured by, the Company's current and former subsidiaries, cases alleging historic premises-based exposure to asbestos-containing materials at various worksites and, as set forth in more detail below, cases alleging personal injury, property damage and remediation costs associated with use of lead in paint. Typically, such proceedings involve claims made by many plaintiffs against many defendants in the chemical industry. In addition, certain subsidiaries of the Company have been named as defendants, potentially responsible parties ("PRPs") or both in a number of environmental proceedings, or have other environmental remediation obligations.

Together with other alleged past manufacturers of lead-based paint and lead pigments for use in paint, a current subsidiary, as well as alleged predecessor companies, have been named as defendants in various legal proceedings alleging that they and other manufacturers are responsible for personal injury, property damage, and remediation costs allegedly associated with the use of these products. The plaintiffs in these legal proceedings include municipalities, school districts, individuals and one state, and seek recovery under a variety of theories, including negligence, failure to warn, breach of warranty, conspiracy, market share liability, fraud, misrepresentation and nuisance. These legal proceedings are in various pre-trial stages. The Company is vigorously defending all lead-related legal proceedings.





Note 10 -Commitments and Contingencies - Continued

Celanese AG ("Celanese") filed suit against Millennium Petrochemicals Inc., a wholly owned operating subsidiary of the Company, on September 30, 1999 in the United States District Court for the Southern District of Texas alleging infringement of a Celanese patent relating to acetic acid production technology. In the suit, Celanese seeks monetary damages and injunctive relief, including royalties. The Company believes it has substantial defenses to this lawsuit and is vigorously defending it.

On January 16, 2002, Slidell Inc. ("Slidell") filed a lawsuit in the United States District Court for the District of Minnesota, against Millennium Inorganic Chemicals Inc., a wholly owned operating subsidiary of the Company, alleging breach of contract and other related causes of action arising out of a contract between the two parties for the supply of packaging equipment. The Company believes it has substantial defenses to these allegations and has filed a counterclaim against Slidell.

With respect to the legal proceedings referred to above, the Company believes that it has valid defenses and intends to defend them vigorously. However, litigation is subject to uncertainties and the Company is unable to guarantee the outcome of these proceedings.

Certain Company subsidiaries have been named as defendants, PRPs, or both, in a number of environmental proceedings associated with waste disposal sites and facilities currently or previously owned, operated or used by the Company's subsidiaries or their predecessors, some of which are on the Superfund National Priorities List of the United States Environmental Protection Agency ("EPA") or similar state lists. The Company has estimated its individual exposure at these sites to be between twenty-five thousand dollars and $29. One potentially significant site at which a Company subsidiary is a PRP concerns alleged polychlorinated biphenyl contamination of a section of the Kalamazoo River in Michigan. In October 2000, the Kalamazoo River Study Group, of which the Company's subsidiary is a member, submitted to the State of Michigan a Draft Remedial Investigation and Draft Feasibility Study that evaluated a number of remedial options and recommended a remedy involving the stabilization of several miles of river bank and the long-term monitoring of river sediments at a total cost for all parties of approximately $73. The Company has accrued for its estimated share of costs for this matter. The EPA has now taken over from the State as lead agency at the site. Neither the EPA nor the State of Michigan has commented on the draft study.

The Company believes that the reasonably probable and estimable range of potential liability for all legal and environmental proceedings, collectively, but which primarily relates to environmental remediation activities and other environmental proceedings, is between $80 and $90 and has accrued $83 as of March 31, 2002. The Company expects that cash expenditures related to these potential liabilities will not be concentrated in any single year and, based on information currently available, the Company does not expect the outcome of these proceedings, either individually or in the aggregate, will have a material adverse effect on the consolidated financial position, results of operations or cash flows of the Company.

Note 11 - Operations by Business Segment

The Company's principal operations are managed and grouped as three separate business segments: Titanium Dioxide ("TiO[u]2") and Related Products; Acetyls; and, Specialty Chemicals. Operating income and expense not identified to the three separate business segments, consisting primarily of employee-related costs for certain former employees, the mining operations of the Company's Brazilian subsidiary for the recovery of non-TiO[u]2-related materials and certain other expenses unrelated to the three separate business segments, are reflected as Other. The following is a summary of the Company's operations by business segment:



MILLENNIUM CHEMICALS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (Continued)
(Dollars in millions, except share data)

Note 11 - Operations by Business Segment - Continued

| | Three Months Ended March 31, 2002 | Three Months Ended March 31, 2001 |
|---|---|---|
| **Net sales** | | |
| Titanium Dioxide and Related Products | $260 | $317 |
| Acetyls | 65 | 99 |
| Specialty Chemicals | 24 | 26 |
| Other | 2 | 2 |
| Total | $351 | $444 |
| **Operating income (loss)** | | |
| Titanium Dioxide and Related Products | $ 10 | $ 28 |
| Acetyls | (7) | (8) |
| Specialty Chemicals | 4 | 4 |
| Other | 4 | 1 |
| Total | $ 11 | $ 25(1) |
| **Depreciation and amortization** | | |
| Titanium Dioxide and Related Products | $ 20 | $ 21 |
| Acetyls | 3 | 5 |
| Specialty Chemicals | 2 | 2 |
| Total | $ 25 | $ 28 |
| **Capital expenditures** | | |
| Titanium Dioxide and Related Products | $ 12 | $ 23 |
| Acetyls | - | 2 |
| Specialty Chemicals | 1 | 1 |
| Other | - | 2 |

| | | |
|---|---|---|
| Total | $ 13 | $ 28 |

--------------
(1) Includes non-recurring reorganization and other charges of $5.

| | March 31, 2002 | December 31, 2001 |
|---|---|---|
| Goodwill | | |
| Titanium Dioxide and Related Products | $ 55 | $ 55 |
| Acetyls | 48 | 323 |
| Total | $103 | $378 |



MILLENNIUM CHEMICALS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)
(Dollars in millions, except share data)

Note 12 - Information on Equistar

The following is summarized financial information for Equistar:

| | March 31, 2002 | December 31, 2001 |
|---|---|---|
| Current assets | $1,047 | $1,226 |
| Noncurrent assets | 4,001 | 5,082 |
| Total assets | $5,048 | $6,308 |
| Current liabilities | $ 527 | $ 661 |

| | | |
|---|---|---|
| Noncurrent liabilities | 2,463 | 2,410 |
| Partners' capital | 2,058 | 3,237 |
| Total liabilities and partners' capital | $5,048 | $6,308 |

| | Three Months Ended March 31, | |
|---|---|---|
| | 2002 | 2001 |
| Net sales | $ 1,136 | $1,773 |
| Operating loss | (75) | (36) |
| Loss before cumulative effect of accounting change | (126) | (77) |
| Cumulative effect of accounting change | (1,053) | -- |
| Net loss | (1,179) | (77) |

The Company recorded $30 related to its share of Equistar's write-down of goodwill during the three months ended March 31, 2002. Even though the Company's share (i.e., 29.5%) of Equistar's write-down is higher than the amount recorded by the Company, most of the write-down was previously taken by the Company in 1999 when it wrote down its investment in Equistar by $639.

Note 13 - Supplemental Financial Information

Millennium America, a wholly owned indirect subsidiary of the Company, is a holding company for all of the Company's operating subsidiaries other than its operations in the United Kingdom, France, Brazil and Australia. Millennium America is the issuer of the 7.00% Senior Notes, the 7.625% Senior Debentures, and the 9.25% Senior Notes, and is the principal borrower under the Credit Agreement. Millennium America guarantees all obligations under the Credit Agreement. The 7.00% Senior Notes, the 7.625% Senior Debentures and the 9.25% Senior Notes, as well as outstanding amounts under the Credit Agreement, are guaranteed by the Company. Accordingly, the following Condensed Consolidating Balance Sheets at March 31, 2002 and December 31, 2001 and the Condensed Consolidating Statements of Operations and Cash Flows for the three months ended March 31, 2002 and 2001, are provided for the Company as supplemental financial information to the Company's consolidated financial statements to disclose the financial position, results of operations and cash flows of (i) the Company, (ii) Millennium America, and (iii) all subsidiaries of the Company other than Millennium America (the "Non-Guarantor Subsidiaries"). The investment in subsidiaries is accounted for by the equity method; accordingly, the shareholders' equity of Millennium America and the Company are presented as if each of these companies and their respective subsidiaries were reported on a consolidated basis.

MILLENNIUM CHEMICALS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)
(Dollars in millions, except share data)

Note 13 - Supplemental Financial Information - Continued

| | Millennium America Inc. | Millennium Chemicals Inc. | Non-Guarantor Subsidiaries | Eliminations | Mil Chem Sub |
|---|---|---|---|---|---|
| **March 31, 2002** | | | | | |
| ASSETS | | | | | |
| Inventories | $ -- | $ -- | $ 329 | $ -- | $ |
| Other current assets | 9 | -- | 353 | -- | |
| Property, plant and equipment, net | -- | -- | 866 | -- | |
| Investment in Equistar | -- | -- | 610 | -- | |
| Investment in subsidiaries | 702 | 639 | -- | (1,341) | |
| Other assets | 12 | -- | 328 | -- | |
| Goodwill | -- | -- | 103 | -- | |
| Due from parent and affiliates, net | 622 | -- | -- | (622) | |
| Total assets | $1,345 | $ 639 | $2,589 | $(1,963) | $2 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | | | |
| Current maturities of long-term debt | $4 | $ -- | $ 9 | $ -- | $ |
| Other current liabilities | 28 | -- | 282 | -- | |
| Long-term debt | 1,160 | -- | 15 | -- | 1 |
| Other liabilities | 5 | -- | 545 | -- | |
| Due to parent and affiliates, net | -- | 99 | 523 | (622) | |
| Total liabilities | 1,197 | 99 | 1,374 | (622) | 2 |
| Minority interest | -- | -- | 22 | -- | |
| Shareholders' equity | 148 | 540 | 1,193 | (1,341) | |
| Total liabilities and shareholders' equity | $1,345 | $ 639 | $2,589 | $(1,963) | $2 |
| **December 31, 2001** | | | | | |
| ASSETS | | | | | |
| Inventories | $ -- | $ -- | $ 370 | $ -- | $ |
| Other current assets | 6 | -- | 384 | -- | |
| Property, plant and equipment, net | -- | -- | 880 | -- | |
| Investment in Equistar | -- | -- | 677 | -- | |

| | | | | | |
|---|---|---|---|---|---|
| Investment in subsidiaries .......... | 1,061 | 968 | -- | (2,029) | |
| Other assets ........................ | 13 | -- | 296 | -- | |
| Goodwill ............................ | -- | -- | 378 | -- | |
| Due from parent and affiliates, net.. | 590 | -- | -- | (590) | |
| Total assets ..................... | $1,670 | $ 968 | $2,985 | $(2,619) | $3 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | | | |
| Current maturities of long-term debt | $ 3 | $ -- | $ 8 | $ -- | $ |
| Other current liabilities ........... | 8 | -- | 364 | -- | |
| Long-term debt ...................... | 1,156 | -- | 16 | -- | 1 |
| Other liabilities ................... | -- | 1 | 549 | -- | |
| Due to parent and affiliates, net.... | -- | 89 | 501 | (590) | |
| Total liabilities ................ | 1,167 | 90 | 1,438 | (590) | 2 |
| Minority interest ................... | -- | -- | 21 | -- | |
| Shareholders' equity ................ | 503 | 878 | 1,526 | (2,029) | |
| Total liabilities and shareholders' equity ........... | $1,670 | $ 968 | $2,985 | $(2,619) | $3 |



MILLENNIUM CHEMICALS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)
(Dollars in millions, except share data)

Note 13 - Supplemental Financial Information - Continued

| | Millennium America Inc. | Millennium Chemicals Inc. | Non-Guarantor Subsidiaries | Eliminations |
|---|---|---|---|---|
| Three Months Ended March 31, 2002 | | | | |
| Net sales.................... | $ - | $ - | $ 351 | $ - |
| Cost of products sold......... | - | - | 292 | - |
| Depreciation and amortization. | - | - | 25 | - |
| Selling, development and administrative expense..... | - | - | 23 | - |
| Operating income........... | - | - | 11 | - |
| Interest (expense) income, net | (22) | - | 1 | - |
| Intercompany interest income (expense), net............ | 27 | (1) | (26) | - |

| | | | | |
|---|---|---|---|---|
| Equity in loss of Equistar.... | - | - | (39) | - |
| Equity in loss of subsidiaries............... | (345) | (335) | - | 680 |
| Other expense, net............ | - | - | (2) | - |
| Income taxes.................. | (2) | - | 22 | - |
| Cumulative effect of accounting change.......... | - | - | (305) | - |
| Net loss.................. | $(342) | $(336) | $(338) | $680 |

| | | | | |
|---|---|---|---|---|
| Three Months Ended March 31, 2001 | | | | |
| Net sales..................... | $ - | $ - | $ 444 | $ - |
| Cost of products sold......... | - | - | 343 | - |
| Depreciation and amortization. | - | - | 28 | - |
| Selling, development and administrative expense..... | - | - | 43 | - |
| Reorganization and other charges.................... | - | - | 5 | - |
| Operating income........... | - | - | 25 | - |
| Interest expense, net......... | (20) | - | (1) | - |
| Intercompany interest income (expense), net............ | 27 | - | (27) | - |
| Equity in loss of Equistar.... | - | - | (24) | - |
| Equity in loss of subsidiaries............... | (28) | (15) | - | 43 |
| Other expense, net............ | - | - | (1) | - |
| Income taxes.................. | (2) | - | 8 | - |
| Net loss.................. | $ (23) | $ (15) | $ (20) | $ 43 |



MILLENNIUM CHEMICALS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)
(Dollars in millions, except share data)

Note 13 - Supplemental Financial Information - Continued

| | Millennium America Inc. | Millennium Chemicals Inc. | Non-Guarantor Subsidiaries | Elimin |
|---|---|---|---|---|
| Three Months Ended March 31, 2002 | | | | |

| | | | | |
|---|---|---|---|---|
| Cash flows from operating activities . | $ 18 | $(2) | $(49) | $ |
| Cash flows from investing activities | | | | |
| Capital expenditures ............... | -- | -- | (13) | |
| Cash used in investing activities ..................... | -- | -- | (13) | |
| Cash flows from financing activities | | | | |
| Dividends to shareholders .......... | -- | (9) | -- | |
| Proceeds from long-term debt ....... | 95 | -- | 2 | |
| Repayment of long-term debt ........ | (85) | -- | (2) | |
| Intercompany ...................... | (31) | 11 | 20 | |
| Increase in notes payable .......... | -- | -- | 1 | |
| Cash (used in) provided by financing activities ............ | (21) | 2 | 21 | |
| Effect of exchange rate changes on cash ............................... | -- | -- | 1 | |
| Decrease in cash and cash equivalents ........................ | (3) | -- | (40) | |
| Cash and cash equivalents at beginning of year .................. | 5 | -- | 109 | |
| Cash and cash equivalents at end of period ........................... | $ 2 | $-- | $ 69 | $ |

Three Months Ended
March 31, 2001

| | | | | |
|---|---|---|---|---|
| Cash flows from operating activities . | $ 18 | $-- | $(12) | $ |
| Cash flows from investing activities | | | | |
| Capital expenditures ............... | -- | -- | (28) | |
| Proceeds from sales of property, plant & equipment ................ | -- | -- | 2 | |
| Cash used in investing activities | -- | -- | (26) | |
| Cash flows from financing activities | | | | |
| Dividends to shareholders .......... | -- | (9) | -- | |
| Proceeds from long-term debt ....... | 25 | -- | -- | |
| Repayment of long-term debt ........ | (25) | -- | (29) | |
| Intercompany ...................... | (37) | 9 | 28 | |
| Increase (decrease) in notes payable .......................... | 19 | -- | (8) | |
| Cash used in financing activities ..................... | (18) | -- | (9) | |
| Effect of exchange rate changes on cash ............................... | -- | -- | (2) | |
| Decrease in cash and cash equivalents | -- | -- | (49) | |
| Cash and cash equivalents at beginning of year .................. | -- | -- | 107 | |

| | | | | |
|---|---|---|---|---|
| Cash and cash equivalents at end of period | $ -- | $-- | $ 58 | $ |



SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this amended report to be signed on its behalf by the undersigned thereunto duly authorized.

MILLENNIUM CHEMICALS INC.

Date: August 14, 2002

/s/ John E. Lushefski

John E. Lushefski
Senior Vice President and
Chief Financial Officer
(as duly authorized officer and
principal financial officer)



STATEMENT OF DIFFERENCES

Characters normally expressed as subscript shall be preceded by............[u]
The section symbol shall be expressed as...................................'SS'