

ENGELHARD CORP
Form 8-K
July 27, 2004

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

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15 (d) of the
Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): July 27, 2004

ENGELHARD CORPORATION
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation)

1-8142
(Commission File Number)

22-1586002
(I.R.S. Employer Identification No.)

101 Wood Avenue, Iselin, New Jersey
(Address of principal executive offices)

08830
(Zip Code)

Registrant's telephone number, including area code (732) 205-5000

Item 12. Results of Operations and Financial Condition.

On July 27, 2004, Engelhard Corporation (the "Company") issued a press release announcing its earnings for its second quarter of fiscal year 2004. A copy of the release is furnished herewith as Exhibit 99.1.

The information furnished under this Item 12, including Exhibit 99.1, shall not be deemed to be filed for the purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and will not be incorporated by reference into any registration statement filed under the Securities Act of 1933, as amended, unless specifically identified therein as being incorporated therein by reference.

SIGNATURES

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

ENGELHARD CORPORATION

(Registrant)

July 27, 2004

Date:

/s/ Michael A. Sperduto

Michael A. Sperduto
Vice President and
Chief Financial Officer

EXHIBIT INDEX

Exhibit No.

Description

99.1 Press Release, dated July 27, 2004, relating to Engelhard Corporation's earnings release for the second quarter of 2004.

EXHIBIT (99.1)

News

Contact

Ted Lowen
(Media)
732-205-6360

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Engelhard Corporation

101 Wood Avenue
P.O. Box 770
Iselin, NJ 08830-0770

For immediate release

ENGELHARD REPORTS SECOND-QUARTER RESULTS

ISELIN, NJ, July 27, 2004 - Engelhard Corporation (NYSE: EC) today reported net earnings for the second quarter ended June 30 of \$68.0 million, or 54 cents per share on a diluted basis, compared with \$54.0 million, or 43 cents per share, for the same period a year ago.

During the second quarter, Engelhard and the U.S. Internal Revenue Service reached agreement with respect to the company's tax returns for 1998 through 2000. That resulted in reversal of previously accrued income taxes totaling \$8 million, which improved results by six cents per share. The prior year's quarter included an after-tax charge of four cents per share related to the remaining lease cost of storage facilities no longer needed as a result of productivity initiatives.

Second quarter sales were \$1,108 million compared with \$929 million a year ago.

"The company's operating results again were in line with expectations," said Barry W. Perry, chairman and chief executive officer. "Performance from new technologies and new served markets continued to contribute to earnings growth."

Mr. Perry indicated that full-year 2004 results are still expected to show modest improvement versus the prior year, including the benefit from the tax agreement.

Second-Quarter Operating Results

Operating earnings from Environmental Technologies increased 4% to \$33 million, while sales rose 7% to \$224 million. Higher revenues from mobile-source OEM markets were partly offset by lower diesel-retrofit sales following completion of last year's large Hong Kong program. Moderate earnings growth resulted primarily from certain mobile markets partly offset by absence of prior-year retrofit volume and unfavorable mix in light-duty vehicles.

Operating earnings from Process Technologies declined 6% to \$23 million. Sales rose 14% to \$159 million. Solid earnings from petroleum refining catalysts and additives were more than offset by continued lower results from most chemical-process markets.

Operating earnings from Appearance and Performance Technologies were \$24 million, compared with \$19 million in last year's quarter, which included a charge of \$7.8 million. Excluding the charge, earnings declined 10%. Sales rose 6% to \$185 million. Results primarily reflected lower volumes of mineral-based products to the paper market.

Operating earnings from Materials Services were \$3 million, down modestly from a year ago. Sales were up 33% to \$525 million.

Engelhard Corporation is a surface and materials science company that develops technologies to improve customers' products and processes. A *Fortune 500* company, Engelhard is a world-leading provider of technologies for environmental, process, appearance and performance applications. For more information, visit Engelhard on the Internet at www.engelhard.com.

Forward-looking statements: This document contains forward-looking statements in management's comments. There are a number of factors that could cause Engelhard's actual results to vary materially from those projected in the forward-looking statements. For a more thorough discussion of these factors, please refer to page 25 of Engelhard's 2003 Form 10-K, dated March 11, 2004.

Engelhard Corporation
Condensed Consolidated Statements of Earnings
(Thousands, except per share data)
(Unaudited)

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|--------------------------------|------------|------------------------------|--------------|
| | 2004 | 2003 | 2004 | 2003 |
| Net sales | \$ 1,107,775 | \$ 929,358 | \$ 2,147,807 | \$ 1,759,797 |
| Cost of sales | 938,034 | 766,461 | 1,818,710 | 1,447,339 |
| Gross profit | 169,741 | 162,897 | 329,097 | 312,458 |
| Selling, administrative and other expenses | 96,594 | 88,400 | 191,443 | 180,569 |
| Special charge/(credit), net | | 7,802 | | (11,978) |
| Operating earnings | 73,147 | 66,695 | 137,654 | 143,867 |
| Equity in earnings of affiliates | 8,364 | 7,539 | 13,303 | 13,177 |
| Interest expense, net | (4,563) | (4,753) | (9,469) | (10,310) |
| Earnings before income taxes | 76,948 | 69,481 | 141,488 | 146,734 |
| Income tax expense | 8,953 | 15,447 | 23,152 | 33,764 |
| Net earnings before cumulative effect of a change in accounting principle, net of tax | 67,995 | 54,034 | 118,336 | 112,970 |
| Cumulative effect of a change in accounting principle, net of tax of \$1,390 | | | | (2,269) |
| Net earnings | \$ 67,995 | \$ 54,034 | \$ 118,336 | \$ 110,701 |
| Earnings per share - basic: | | | | |
| Earnings before cumulative effect of a change in accounting principle | \$ 0.55 | \$ 0.43 | \$ 0.96 | \$ 0.90 |
| Cumulative effect of a change in accounting principle, net of tax | | | | (0.02) |
| Earnings per share - basic | \$ 0.55 | \$ 0.43 | \$ 0.96 | \$ 0.88 |
| Earnings per share - diluted: | | | | |
| Earnings before cumulative effect of a change in accounting principle | \$ 0.54 | \$ 0.43 | \$ 0.94 | \$ 0.89 |
| Cumulative effect of a change in accounting principle, net of tax | | | | (0.02) |
| Earnings per share - diluted | \$ 0.54 | \$ 0.43 | \$ 0.94 | \$ 0.87 |
| Cash dividends paid per share | \$ 0.11 | \$ 0.10 | \$ 0.22 | \$ 0.20 |
| Average number of shares outstanding - basic | 123,650 | 125,261 | 123,904 | 126,067 |
| Average number of shares outstanding - diluted | 126,040 | 127,078 | 126,202 | 127,566 |
| Actual number of shares outstanding at end of period | 124,289 | 125,296 | 124,289 | 125,296 |

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**Three Months Ended
June 30,**
**Six Months Ended
June 30,**

Had compensation cost for Engelhard's stock option plans been determined based on the fair value at grant date consistent with the provisions of Statement of Financial Accounting Standards (SFAS) No. 123, Accounting for Stock-Based Compensation, as amended by SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure, (assuming SFAS No. 123 was adopted on its effective date of October 1995), Engelhard would have reported net earnings and diluted earnings per share as follows:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|--|-------------|--------------------------------------|-------------|
| | 2004 | 2003 | 2004 | 2003 |
| Pro forma information (in thousands, except per-share data) | | | | |
| Net earnings - as reported | \$ 67,995 | \$ 54,034 | \$ 118,336 | \$ 110,701 |
| Net earnings - pro forma | 66,574 | 52,620 | 114,563 | 107,873 |
| Diluted earnings per share - as reported | 0.54 | 0.43 | 0.94 | 0.87 |
| Diluted earnings per share - pro forma | 0.53 | 0.41 | 0.91 | 0.85 |

Engelhard Corporation
Business Segment Information
(Thousands)
(Unaudited)

| | Three Months Ended June 30, | | | Six Months Ended June 30, | | |
|---|--|-------------|---------------|--------------------------------------|---------------|---------------|
| | 2004 | 2003 | Change | 2004 | 2003 | Change |
| Net Sales | | | | | | |
| Environmental Technologies | \$ 224,209 | \$ 209,153 | 7% | \$ 462,646 | \$ 422,693 | 9% |
| Process Technologies | 159,214 | 139,833 | 14% | 291,434 | 258,353 | 13% |
| Appearance and Performance Technologies | 185,238 | 175,190 | 6% | 351,531 | 334,386 | 5% |
| Technology segments | 568,661 | 524,176 | 8% | 1,105,611 | 1,015,432 | 9% |
| Materials Services | 525,153 | 394,485 | 33% | 1,016,252 | 723,442 | 40% |
| All Other | 13,961 | 10,697 | 31% | 25,944 | 20,923 | 24% |
| Total net sales | \$ 1,107,775 | \$ 929,358 | 19% | \$ 2,147,807 | \$ 1,759,797 | 22% |
| Operating Earnings | | | | | | |
| Environmental Technologies | \$ 32,755 | \$ 31,489 | 4% | \$ 69,744 | \$ 56,066 (A) | 24% |
| Process Technologies | 23,066 | 24,571 | -6% | 39,362 | 38,091 (B) | 3% |
| Appearance and Performance Technologies | 23,806 | 18,613 (C) | 28% | 38,857 | 37,196 (C) | 4% |

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| | Three Months Ended June 30, | | | Six Months Ended June 30, | | |
|---|--------------------------------|-----------|------|------------------------------|------------|-------|
| | | | | | | |
| Technology segments | 79,627 | 74,673 | 7% | 147,963 | 131,353 | 13% |
| Materials Services | 2,754 | 3,031 | -9% | 6,122 | 7,484 | -18% |
| All Other | (9,234) | (11,009) | -16% | (16,431) | 5,030 (D) | -427% |
| Total operating earnings | 73,147 | 66,695 | 10% | 137,654 | 143,867 | -4% |
| Equity in earnings of affiliates | 8,364 | 7,539 | 11% | 13,303 | 13,177 | 1% |
| Interest expense, net | (4,563) | (4,753) | -4% | (9,469) | (10,310) | -8% |
| Earnings before income taxes | 76,948 | 69,481 | 11% | 141,488 | 146,734 | -4% |
| Income tax expense | 8,953 | 15,447 | -42% | 23,152 | 33,764 | -31% |
| Net earnings before cumulative effect of a change in accounting principle, net of tax | 67,995 | 54,034 | 26% | 118,336 | 112,970 | 5% |
| Cumulative effect of a change in accounting principle, net of tax of \$1,390 | | | | | (2,269) | |
| Net earnings | \$ 67,995 | \$ 54,034 | 26% | \$ 118,336 | \$ 110,701 | 7% |

(A) Includes a restructuring charge of \$5.3 million (\$3.5 million after tax or \$0.03 per share) in 2003.

(B) Includes a restructuring charge of \$2.6 million (\$1.6 million after tax or \$0.01 per share) in 2003.

(C) Includes a charge of \$7.8 million (\$4.8 million after tax or \$0.04 per share) in 2003 related to lease commitments for idle facilities.

(D) Includes a royalty settlement gain of \$28.4 million (\$17.6 million after tax or \$0.14 per share) and a Corporate restructuring charge of \$0.8 million (\$0.5 million after tax or less than \$0.01 per share) in 2003.

Engelhard Corporation
Condensed Consolidated Balance Sheets
(Thousands)
(Unaudited)

| | June 30, 2004 | December 31, 2003 |
|---------------------------|------------------|----------------------|
| Cash | \$ 140,598 | \$ 87,889 |
| Receivables, net | 431,861 | 400,043 |
| Committed metal positions | 332,621 | 350,163 |
| Inventories | 442,747 | 442,787 |
| Other current assets | 127,258 | 112,678 |
| Total current assets | 1,475,085 | 1,393,560 |

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| | June 30, | December 31, |
|--|-----------------|---------------------|
| Investments | 169,703 | 158,664 |
| Property, plant and equipment, net | 865,582 | 880,822 |
| Goodwill | 280,512 | 275,121 |
| Other intangible and noncurrent assets | 211,023 | 224,836 |
| | <hr/> | <hr/> |
| Total assets | \$3,001,905 | \$2,933,003 |
| | <hr/> | <hr/> |
| Short-term borrowings | \$ 9,701 | \$ 68,275 |
| Accounts payable | 307,547 | 296,979 |
| Hedged metal obligations | 302,001 | 295,821 |
| Other current liabilities | 279,564 | 286,940 |
| | <hr/> | <hr/> |
| Total current liabilities | 898,813 | 948,015 |
| Long-term debt | 441,701 | 390,565 |
| Other noncurrent liabilities | 303,956 | 309,024 |
| Shareholders' equity | 1,357,435 | 1,285,399 |
| | <hr/> | <hr/> |
| Total liabilities and shareholders' equity | \$3,001,905 | \$2,933,003 |
| | <hr/> | <hr/> |

Engelhard Corporation
Condensed Consolidated Statements of Cash Flows
(Thousands)
(Unaudited)

| | Six Months Ended June 30, | |
|---|--------------------------------------|-------------|
| | 2004 | 2003 |
| | <hr/> | <hr/> |
| Cash flows from operating activities | | |
| Net earnings | \$ 118,336 | \$ 110,701 |
| Adjustments to reconcile net earnings to net cash provided by operating activities: | | |
| Depreciation and depletion | 62,113 | 61,775 |
| Amortization of intangible assets | 1,845 | 1,649 |
| Equity results, net of dividends | (3,356) | (4,200) |
| Net change in assets and liabilities: | | |
| Materials Services related | 24,950 | 267,789 |
| All other | (30,502) | 880 |
| | <hr/> | <hr/> |
| Net cash provided by operating activities | 173,386 | 438,594 |
| | <hr/> | <hr/> |
| Cash flows from investing activities | | |
| Capital expenditures | (44,591) | (39,934) |
| Proceeds from investments | 1,988 | 7,063 |
| Acquisitions and other investments | (6,240) | |
| | <hr/> | <hr/> |
| Net cash used in investing activities | (48,843) | (32,871) |
| | <hr/> | <hr/> |

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| | Six Months Ended June 30, | |
|--|--------------------------------------|-----------|
| | <hr/> | |
| Cash flows from financing activities | | |
| Repayment of short-term borrowings | (58,574) | (218,563) |
| Decrease in hedged metal obligations | (3,777) | (209,601) |
| Proceeds from issuance of long-term debt | 51,136 | 147,658 |
| Purchase of treasury stock | (51,123) | (74,714) |
| Cash from exercise of stock options | 19,200 | 11,011 |
| Dividends paid | (27,335) | (25,280) |
| | <hr/> | <hr/> |
| Net cash used in financing activities | (70,473) | (369,489) |
| Effect of exchange rate changes on cash | (1,361) | 11,499 |
| | <hr/> | <hr/> |
| Net increase in cash | 52,709 | 47,733 |
| Cash at beginning of year | 87,889 | 48,246 |
| | <hr/> | <hr/> |
| Cash at end of period | \$ 140,598 | \$ 95,979 |
| | <hr/> | <hr/> |