

Edgar Filing: ENGELHARD CORP - Form 10-Q

ENGELHARD CORP
Form 10-Q
November 09, 2001

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2001
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 1-8142

ENGELHARD CORPORATION

(Exact name of Registrant as specified in its charter)

DELAWARE

22-1586002

(State or other jurisdiction of
incorporation or organization)

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

101 WOOD AVENUE, ISELIN, NEW JERSEY

08830

(Address of principal executive offices)

(Zip Code)

(732) 205-5000

(Registrant's telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year,
if changed since last report)

Indicate by check mark whether the Registrant (1) has filed all reports
required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of
1934 during the preceding 12 months (or for such shorter period that the
Registrant was required to file such reports), and (2) has been subject to such
filing requirements for the past 90 days.

Yes X No
 --- ---

Indicate the number of shares outstanding of each of the issuer's classes of
common stock, as of the latest practicable date.

Class of Common Stock

Outstanding at October 31, 2001

\$1 par value

129,796,484

Edgar Filing: ENGELHARD CORP - Form 10-Q

1

PART I - FINANCIAL INFORMATION

Item 1 - Financial Statements

ENGELHARD CORPORATION
 CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS
 (Thousands, except per share data)
 (Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2001	2000	2001	2000
Net sales	\$1,143,052	\$1,396,812	\$4,225,945	\$4,000,337
Cost of sales	974,843	1,230,160	3,718,418	3,457,630
Gross profit	168,209	166,652	507,527	542,707
Selling, administrative and other expenses	81,355	79,308	256,780	258,807
Special charge	-	24,617	7,100	24,617
Operating earnings	86,854	62,727	243,647	259,283
Equity in earnings of affiliates	3,520	5,031	23,928	19,428
Gain on sale of investments, net	-	24,787	-	18,787
Interest expense, net	(9,608)	(15,001)	(36,740)	(47,867)
Earnings before income taxes	80,766	77,544	230,835	249,631
Income tax expense	23,018	26,210	65,788	80,417
Net earnings	\$ 57,748	\$ 51,334	\$ 165,047	\$ 169,214
Basic earnings per share	\$ 0.44	\$ 0.41	\$ 1.27	\$ 1.34
Diluted earnings per share ...	\$ 0.43	\$ 0.40	\$ 1.25	\$ 1.32
Cash dividends per share	\$ 0.10	\$ 0.10	\$ 0.30	\$ 0.30
Average number of shares outstanding - Basic	131,011	126,451	130,124	126,281
Average number of shares outstanding - Diluted	133,263	128,368	132,300	127,983

Edgar Filing: ENGELHARD CORP - Form 10-Q

See the Accompanying Notes to the Unaudited Condensed Consolidated
Financial Statements

2

ENGELHARD CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(Thousands)
(Unaudited)

	September 30, 2001	December 31, 2000
	-----	-----
Cash	\$ 62,218	\$ 33,534
Receivables, net.....	408,421	459,753
Committed metal positions	598,302	720,659
Inventories	406,855	371,767
Other current assets	174,175	155,992
	-----	-----
Total current assets	1,649,971	1,741,705
Investments	205,796	200,070
Property, plant and equipment, net	796,803	767,687
Intangible assets, net	292,461	302,843
Other noncurrent assets	137,654	154,527
	-----	-----
Total assets	\$3,082,685	\$3,166,832
	=====	=====
Short-term borrowings	\$ 385,302	\$ 352,042
Current portion of long-term debt	73	150,130
Accounts payable	241,891	220,827
Hedged metal obligations	618,660	676,460
Other current liabilities	378,264	427,240
	-----	-----
Total current liabilities	1,624,190	1,826,699
Long-term debt	239,607	248,566
Other noncurrent liabilities	209,259	217,000
Shareholders' equity	1,009,629	874,567
	-----	-----
Total liabilities and shareholders' equity	\$3,082,685	\$3,166,832
	=====	=====

See the Accompanying Notes to the Unaudited Condensed Consolidated
Financial Statements

3

Edgar Filing: ENGELHARD CORP - Form 10-Q

ENGELHARD CORPORATION
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
 (Thousands)
 (Unaudited)

	Nine Months Ended September 30,	
	2001	2000
	-----	-----
Cash flows from operating activities		
Net earnings	\$ 165,047	\$ 169,214
Adjustments to reconcile net earnings to net cash provided by operating activities		
Depreciation and depletion	72,254	77,258
Amortization of intangible assets	10,143	8,404
Gain on sale of investments, net.....	-	(18,787)
Equity results, net of dividends	(19,770)	(15,064)
Net change in assets and liabilities		
Metal related	(22,027)	(84,982)
All other	(18,261)	(20,389)
	-----	-----
Net cash provided by operating activities.....	187,386	115,654
	-----	-----
Cash flows from investing activities		
Capital expenditures	(111,344)	(76,060)
Proceeds from sale of investments	3,400	52,811
Acquisitions and other investments.....	(3,000)	(40,095)
	-----	-----
Net cash used in investing activities	(110,944)	(63,344)
	-----	-----
Cash flows from financing activities		
Increase in short-term borrowings	33,260	19,529
Increase in hedged metal obligations.....	96,156	33,165
Repayment of long-term debt	(159,189)	(103,703)
Purchase of treasury stock	(69,144)	-
Stock bonus and option plan transactions	91,597	7,641
Dividends paid	(39,130)	(25,525)
	-----	-----
Net cash used in financing activities.....	(46,450)	(68,893)
	-----	-----
Effect of exchange rate changes on cash	(1,308)	(2,428)
	-----	-----
Net increase/(decrease) in cash.....	28,684	(19,011)
Cash at beginning of year	33,534	54,375
	-----	-----
Cash at end of period.....	\$ 62,218	\$ 35,364
	=====	=====

See the Accompanying Notes to the Unaudited Condensed Consolidated Financial Statements

Edgar Filing: ENGELHARD CORP - Form 10-Q

BUSINESS SEGMENT INFORMATION (Thousands) (Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2001	2000	2001	2000
Net Sales				
Environmental Technologies ..	\$ 149,247	\$ 164,621	\$ 494,484	\$ 493,190
Process Technologies	131,138	147,739	413,918	393,514
Appearance and Performance Technologies.....	154,766	178,755	485,364	522,140
Materials Services.....	691,422	897,286	2,802,439	2,565,790
Reportable segments ...	1,126,573	1,388,401	4,196,205	3,974,634
All other	16,479	8,411	29,740	25,703
	\$1,143,052	\$1,396,812	\$4,225,945	\$4,000,337
Operating Earnings				
Environmental Technologies ..	\$ 35,577	\$ 35,552	\$ 114,710	\$ 101,381
Process Technologies	24,498	19,495	63,509	54,433
Appearance and Performance Technologies.....	11,863	22,182	33,376	63,484
Materials Services.....	12,229	14,301	46,483	77,634
Reportable segments ...	84,167	91,530	258,078	296,932
All other	2,687	(28,803)	(14,431)	(37,649)
	86,854	62,727	243,647	259,283
Equity in earnings of affiliates	3,520	5,031	23,928	19,428
Gain on sale of investments, net	-	24,787	-	18,787
Interest expense, net	(9,608)	(15,001)	(36,740)	(47,867)
Earnings before income taxes	\$ 80,766	\$ 77,544	\$ 230,835	\$ 249,631
Income tax expense	23,018	26,210	65,788	80,417
Net earnings	\$ 57,748	\$ 51,334	\$ 165,047	\$ 169,214

See the Accompanying Notes to the Unaudited Condensed Consolidated
Financial Statements

Edgar Filing: ENGELHARD CORP - Form 10-Q

Note 1 - Basis of Presentation

The unaudited condensed consolidated financial statements of Engelhard Corporation and subsidiaries (the "Company") contain all adjustments, which, in the opinion of Management, are necessary for a fair statement of the results for the interim periods presented. The financial statement results for interim periods are not necessarily indicative of financial results for the full year. These financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's 2000 Annual Report to Shareholders. Certain prior-year amounts have been reclassified to conform with the current-year presentation.

Note 2 - Inventories

Inventories consist of the following (in thousands):

	September 30, 2001	December 31, 2000
	-----	-----
Raw materials	\$ 98,567	\$ 81,063
Work in process	68,816	76,735
Finished goods	218,234	190,764
Precious metals	21,238	23,205
	-----	-----
Total inventories	\$406,855	\$371,767
	=====	=====

The majority of the Company's physical metal is carried in committed metal positions with the remainder carried in inventory. Precious-metals carried in inventory are stated at LIFO cost. The market value of precious-metal inventories exceeded cost by \$98.3 million and \$254.1 million at September 30, 2001 and December 31, 2000, respectively. Net earnings include after-tax gains of \$3.2 million for the third quarter and nine months ended September 30, 2001 and \$2.5 million for the fourth quarter and twelve months ended December 31, 2000 from the sale of inventory accounted for under the LIFO method.

Note 3 - Comprehensive Income

Comprehensive income is summarized as follows (in thousands):

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	-----	-----	-----	-----
	2001	2000	2001	2000
	-----	-----	-----	-----
Net earnings	\$57,748	\$51,334	\$165,047	\$169,214

Edgar Filing: ENGELHARD CORP - Form 10-Q

Other comprehensive income/(loss):

Foreign currency translation adjustment	20,193	(4,512)	(37,718)	(5,431)
Cash flow derivative adjustment, net of tax	(2,476)	-	(7,782)	-
Comprehensive income	\$75,465	\$46,822	\$119,547	\$163,783
	=====	=====	=====	=====

No provision has been made for U.S. or additional foreign taxes on the undistributed earnings of foreign subsidiaries because such earnings are expected to be reinvested indefinitely in the subsidiaries' operations. See Note 5 for details on the cash flow derivative adjustment.

Note 4 - Earnings Per Share

The following table represents the computation of basic and diluted earnings per share:

(in thousands, except per share data)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2001	2000	2001	2000
Basic EPS Computation				
Net earnings applicable to common shares	\$ 57,748	\$ 51,334	\$165,047	\$169,214
Average number of shares outstanding - basic	131,011	126,451	130,124	126,281
Basic earnings per share	\$ 0.44	\$ 0.41	\$ 1.27	\$ 1.34
Diluted EPS Computation				
Net earnings applicable to common shares	\$ 57,748	\$ 51,334	\$165,047	\$169,214
Average number of shares outstanding - basic	131,011	126,451	130,124	126,281
Effect of dilutive stock options and other incentives	2,252	669	2,176	454
Effect of Rabbi Trust	-	1,248	-	1,248
Average number of shares outstanding-diluted	133,263	128,368	132,300	127,983
Diluted earnings per share	\$ 0.43	\$ 0.40	\$ 1.25	\$ 1.32

7

Note 5 - Derivatives and Hedging

The Company adopted Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities" and SFAS No.

Edgar Filing: ENGELHARD CORP - Form 10-Q

138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities (an amendment of FASB Statement No. 133)" on January 1, 2001. The Company reports all derivative instruments on the balance sheet at their fair value. Changes in the fair value of derivatives are recorded each period in earnings or comprehensive income, depending on the designation of the derivative. Changes in the fair value of derivatives that are not designated as accounting hedges are reported immediately in earnings.

In order to manage in a manner consistent with historical processes, procedures and systems and to achieve operating economies, certain economic hedge transactions are not designated as hedges for accounting purposes. In those cases, which primarily relate to platinum group metals, the Company, in accordance with the newly adopted standards, will continue to mark to market both the hedge instrument and the related position constituting the risk hedged, recognizing the effect in current earnings.

The Company documents all relationships between derivative hedging instruments and hedged items, as well as its risk-management objective and strategy for entering into various hedge transactions.

The following derivative instruments impacted the Company's results for the three and nine month periods ended September 30, 2001:

Foreign Exchange Contracts

The Company designates as accounting hedges certain foreign currency forward contracts entered into as hedges against anticipated receivables or payables which will arise from forecasted transactions that are denominated in currencies other than the functional currency of the entity which will hold those assets or liabilities. The ultimate maturities of the contracts are timed to coincide with the expected occurrence of the underlying transaction.

For the three and nine month periods ended September 30, 2001, the Company reported after-tax losses of \$0.9 million and after-tax gains of \$0.2 million, respectively, in accumulated other comprehensive income relating to the change in the fair value of derivatives designated as foreign currency cash flow hedges. It is expected that gains of \$0.2 million will be reclassified into earnings within the next twelve months. There was no gain or loss reclassified from accumulated other comprehensive income into earnings as a result of the discontinuance of cash flow hedges due to the probability of forecasted transactions not occurring. As of September 30, 2001, the maximum length of time over which the Company is hedging its exposure to movements in foreign exchange rates for forecasted transactions is three months.

A second group of forward contracts entered into to economically hedge the exposure to foreign currency fluctuations associated with certain monetary assets and liabilities are not designated as hedging instruments for accounting purposes and changes in the fair value of these items are recorded in earnings to offset the foreign exchange gains and losses of the related monetary assets and liabilities.

8

Commodity Contracts

The Company enters into contracts as a hedge to protect a portion of its

Edgar Filing: ENGELHARD CORP - Form 10-Q

exposure to movements in certain commodity prices. The ultimate maturities of the contracts are timed to coincide with the expected usage of these commodities in the Company's manufacturing operations. For the three and nine month periods ended September 30, 2001, the Company reported after-tax losses of \$1.6 million and \$8.0 million, respectively, in accumulated other comprehensive income relating to the change in the fair value of derivatives designated as commodity hedges. These losses primarily relate to derivatives designated as natural gas cash flow hedges. It is expected that \$7.1 million of these losses will be reclassified into earnings within the next twelve months. As of September 30, 2001, the maximum length of time over which the Company is hedging its exposure to movements in commodity prices for forecasted transactions is fifteen months.

Note 6 - Other Matters

In 1998, Management learned that Engelhard and several other companies operating in Japan had been victims of a fraudulent scheme involving base-metal inventory held in third-party warehouses in Japan. The inventory loss was approximately \$40 million in 1997 and \$20 million in 1998. The Company is vigorously pursuing various recovery actions. These actions include negotiations with the various third parties involved and, in several instances, the commencement of litigation. In the first quarter of 1998, Engelhard recorded a receivable from the insurance carriers and third parties involved for approximately \$20 million. This amount represented Management's and counsel's best estimate of the minimum probable recovery from the various insurance policies and other parties involved in the fraudulent scheme. In 2001, the Company recovered \$3.7 million reducing the receivable discussed above to \$16.3 million. The Company continues to pursue recovery from insurance and other parties.

The Company is involved in a value-added tax dispute in Peru. Management believes the Company was targeted by corrupt officials within the former Peruvian Government. On December 2, 1999, Engelhard Peru, S.A., a wholly owned subsidiary, was denied refund claims of approximately \$28 million. The Peruvian tax authority also determined that Engelhard Peru, S.A. is liable for approximately \$63 million in refunds previously paid, fines and interest as of December 31, 1999. Interest and fines continue to accrue at rates established by Peruvian law. Engelhard Peru, S.A. is contesting these determinations vigorously, and Management believes, based on consultation with counsel, that Engelhard Peru, S.A. is entitled to all refunds claimed and is not liable for these additional taxes, fines or interest. In late October 2000, a criminal proceeding alleging tax fraud and forgery related to this value-added tax dispute was initiated against two Lima-based officials of Engelhard Peru, S.A. Although Engelhard Peru, S.A. is not a defendant, it may be civilly liable in Peru if its representatives are found responsible for criminal conduct. Accordingly, Engelhard Peru is assisting in the vigorous defense of this proceeding. Management believes the maximum economic exposure is limited to the aggregate value of all assets of Engelhard Peru, S.A., including unpaid refunds, which is approximately \$30 million.

Edgar Filing: ENGELHARD CORP - Form 10-Q

Results of Operations

Comparison of the Third Quarter of 2001
with the Third Quarter of 2000

Net earnings increased 12% to \$57.7 million in the third quarter of 2001 from \$51.3 million for the same period in 2000. Operating earnings for the third quarter of 2001 increased 38% to \$86.9 million from \$62.7 million in the same period of 2000. Excluding the special charge of \$24.6 million reported in the third quarter of 2000 related to the write-down of goodwill and fixed assets of the Company's HexCore business, operating earnings were essentially flat from the year-ago quarter. This charge was reported in the Company's "All Other" segment. Lower operating earnings from two reportable segments -- Appearance and Performance Technologies and Materials Services -- were partially offset by higher operating earnings from Process Technologies. Operating earnings from Environmental Technologies were essentially flat from the year-ago quarter.

The effective tax rate was 28.5% in the third quarter of 2001 compared with 33.8% for the same period last year. The lower rate was primarily a result of lowering the 2001 annual effective tax rate due to the utilization of foreign tax credits.

The Company's share of earnings from affiliates was \$3.5 million for the third quarter of 2001 compared with \$5.0 million for the same period in 2000. Lower equity earnings were primarily from Engelhard-CLAL, a 50% owned precious-metal-fabrication joint venture.

Net interest expense decreased 36% to \$9.6 million in the third quarter of 2001 from \$15.0 million in the same period of 2000. Lower net interest expense was primarily due to decreased borrowings and lower short-term interest rates.

Net sales decreased 18% to \$1.1 billion in the third quarter of 2001 from \$1.4 billion for the same period in 2000. Lower sales were reported in the Company's four reportable segments. Higher sales were reported in the Company's "All Other" segment primarily from the sale of inventory accounted for under the LIFO method in the third quarter of 2001.

10

Environmental Technologies

Operating earnings of \$35.6 million for the third quarter of 2001 were essentially flat from the same period of 2000. Net sales for the third quarter of 2001 decreased 9% to \$149.2 million from \$164.6 million in the same period of 2000. Excluding results of the segment's metal-joining products business sold in

Edgar Filing: ENGELHARD CORP - Form 10-Q

the third quarter of 2000 and the silver nitrate business sold in the first quarter of 2001, operating earnings would have increased 5% and net sales would have been flat.

The majority of this segment's sales and operating earnings are derived from technologies to control pollution from mobile sources, including gasoline and diesel-powered passenger cars, sport-utility vehicles, trucks, buses and off-road vehicles. Earnings increased slightly from auto-emission catalysts in spite of a 9% drop in worldwide production of light-duty vehicles. This increase was primarily due to a favorable product and customer mix from advanced technologies for auto-emission catalysts.

Earnings also increased in the segment's non-automotive markets from higher sales volumes of emission-control systems for gas turbines used in power generation facilities.

Process Technologies

Operating earnings increased 26% to \$24.5 million in the third quarter of 2001 from \$19.5 million in the same period of 2000. Net sales for the third quarter of 2001 decreased 11% to \$131.1 million from \$147.7 million in the same period of 2000.

Earnings from chemical-processing technologies were higher primarily from a favorable product mix, reduced costs from supply-chain management initiatives and productivity improvements and moderate price increases. Sales of chemical-processing technologies decreased due to significantly lower prices of precious and base metals, which are passed through primarily to the Company's European customers.

Earnings from technologies for the polypropylene market increased primarily from the inclusion of results from an acquisition late in the third quarter of 2000 and continued strong demand for Lynx 1000 polypropylene catalysts.

Earnings from petroleum refining technologies increased slightly as higher sales volumes and a favorable product mix were partially offset by higher energy and raw material costs.

Appearance and Performance Technologies

Operating earnings decreased 47% to \$11.9 million in the third quarter of 2001 from \$22.2 million in the same period of 2000. Net sales for the third quarter of 2001 decreased 13% to \$154.8 million from \$178.8 million in the same period of 2000.

Earnings from minerals technologies were down primarily due to lower sales volumes in the paper market and higher energy costs.

11

Earnings for appearance technologies decreased from lower earnings in all market segments. These decreases were due to lower sales volumes.

Materials Services

Edgar Filing: ENGELHARD CORP - Form 10-Q

Operating earnings decreased 14% to \$12.2 million in the third quarter of 2001 from \$14.3 million in the same period of 2000. Net sales for the third quarter of 2001 decreased 23% to \$691.4 million from \$897.3 million in the same period of 2000.

Earnings were down due to significantly lower volumes and prices of platinum group metals. The earnings decrease was partially offset by increased earnings in the recycling (refining) of platinum group metals and the reversal of certain expense accruals that are no longer necessary.

Comparison of the First Nine Months of 2001
with the First Nine Months of 2000

Net earnings decreased 2% to \$165.0 million in the first nine months of 2001 from \$169.2 million in the same period of 2000. Operating earnings for the first nine months of 2001 decreased 6% to \$243.6 million from \$259.3 million in the same period of 2000. Excluding the special charge of \$7.1 million reported in the second quarter of 2001 and the special charge of \$24.6 million reported in the third quarter of 2000, operating earnings would have decreased 12%. Lower operating earnings from two reportable segments -- Appearance and Performance Technologies and Materials Services -- were partially offset by higher operating earnings from Environmental Technologies and Process Technologies.

The effective tax rate was 28.5% in the first nine months of 2001 compared with 32.2% for the same period last year. The lower rate was a result of lowering the 2001 annual effective tax rate due to the utilization of foreign tax credits.

The Company's share of earnings from affiliates was \$23.9 million for the first nine months of 2001 compared with \$19.4 million for the same period in 2000. Higher equity earnings were primarily from Engelhard-CLAL, a 50% owned precious-metal-fabrication joint venture; Heesung-Engelhard, a 49% Korean-owned environmental catalyst joint venture; and N.E. Chemcat, a publicly traded Japanese Corporation 38.8% owned by Engelhard that is a leading producer of automotive and chemical catalysts.

Net interest expense decreased 23% to \$36.7 million in the first nine months of 2001 from \$47.9 million in the same period of 2000. Lower net interest expense was primarily due to decreased borrowings and lower short-term interest rates.

12

Net sales increased 6% to \$4.2 billion in the first nine months of 2001 from \$4.0 billion in the same period in 2000. The Process Technologies and Materials Services segments reported higher sales, which more than offset lower sales from the Appearance and Performance Technologies segment. Sales of the Environmental Technologies segment were essentially flat from the same period of 2000. Higher sales were reported in the Company's "All Other" segment due to the sale of inventory accounted for under the LIFO method in the third quarter of 2001.

Environmental Technologies

Operating earnings increased 13% to \$114.7 million in the first nine months of 2001 from \$101.4 million in the same period of 2000. Net sales for the first nine months of 2001 of \$494.5 million were essentially flat from the same period of 2000. Excluding results of the segment's metal-joining products business sold in the third quarter of 2000 and the silver nitrate business sold in the first quarter of 2001, net sales and operating earnings would have increased 10% and 20%, respectively.

The majority of this segment's sales and operating earnings are derived from technologies to control pollution from mobile sources, including gasoline and diesel-powered passenger cars, sport-utility vehicles, trucks, buses and off-road vehicles. Earnings increased primarily from strength in auto-emission catalysts in North America, driven by increased volumes, and a favorable product and customer mix from advanced technologies for auto-emission catalysts.

Earnings also were favorably impacted by strength in the segment's non-automotive markets, primarily from increased volumes of emission-control systems for gas turbines used in power generation facilities.

Process Technologies

Operating earnings increased 17% to \$63.5 million in the first nine months of 2001 from \$54.4 million in the same period of 2000. Net sales for the first nine months of 2001 increased 5% to \$413.9 million from \$393.5 million in the same period of 2000.

Earnings from chemical-processing technologies were higher primarily from reduced costs from supply-chain management initiatives and productivity improvements and moderate price increases. Sales of chemical-processing technologies decreased due to significantly lower prices of precious and base metals in the third quarter of 2001, which are passed through primarily to the Company's European customers.

Earnings from technologies for the polypropylene market increased primarily from the inclusion of results from an acquisition late in the third quarter of 2000 and continued strong demand for Lynx 1000 polypropylene catalysts.

Earnings from petroleum refining technologies decreased due to higher energy and raw material costs, partially offset by increased sales volumes of fluid cracking catalysts.

13

Appearance and Performance Technologies

Operating earnings decreased 47% to \$33.4 million in the first nine months of 2001 from \$63.5 million in the same period of 2000. Net sales for the first nine months of 2001 decreased 7% to \$485.4 million from \$522.1 million in the same period of 2000. Excluding the \$7.1 million special charge reported in the second quarter of 2001, operating earnings would have decreased 36% from the same period of 2000.

Earnings in minerals technologies decreased due to lower volumes to the paper market and higher energy costs.

Edgar Filing: ENGELHARD CORP - Form 10-Q

Earnings in appearance technologies decreased due to lower earnings of color pigments and specialty films. Earnings from effect pigments were up slightly as reduced manufacturing costs and higher cosmetic volumes were partially offset by lower automotive and industrial volumes.

Materials Services

Operating earnings decreased 40% to \$46.5 million in the first nine months of 2001 from \$77.6 million in the same period of 2000. Net sales for the first nine months of 2001 increased 9% to \$2.8 billion from \$2.6 billion in the same period of 2000.

Earnings were down compared with unusually strong results in the prior year. This decrease was partially offset by increased earnings in the recycling (refining) of platinum group metals. The sales increase was due to higher platinum-group-metal prices.

Financial Condition and Liquidity

The Company's current ratio was 1.0 at September 30, 2001 and December 31, 2000. The percentage of total debt to total capitalization decreased to 38% at September 30, 2001 from 46% at December 31, 2000, primarily due to decreased borrowings and increased retained earnings.

The variance in cash flows from operating activities primarily occurred in the Materials Services segment and reflects changes in metal positions used to facilitate requirements of the Company, its metals customers and suppliers. Materials Services routinely enters into a variety of arrangements for the sourcing of metals. Generally, transactions are hedged on a daily basis. Hedging is accomplished primarily through forward, future and option contracts. However, in closely monitored situations for which exposure levels and transaction size limits have been set by senior management, the Company from time to time holds

Edgar Filing: ENGELHARD CORP - Form 10-Q

large unhedged industrial commodity positions that are subject to future market fluctuations. Hedged metal obligations (primarily amounts payable for metal purchased forward as an economic hedge) are considered financing activities and are included in that section of the Company's "Consolidated Statements of Cash Flows." These transactions generally cover Materials Services' sourcing requirements. Materials Services works to ensure that the Company and its customers have an uninterrupted source of metals, primarily platinum group metals, utilizing supply contracts and commodities markets around the world. Committed metal positions include significant advances made for the purchase of precious metals that have been delivered to the Company but are as yet unpriced. As of the end of the quarter, the aggregate market value of those metals had fallen below the amounts advanced; however, the Company does not expect any loss on these purchases due to contractual exchanges of metals/cash or future price changes.

The variance in cash flows from financing activities is primarily related to an increase in stock option plan transactions associated with the exercise of stock options, an increase in the purchase of treasury stock and the repayment of long-term debt in the third quarter of 2001.

In July 1998, the Company filed a shelf registration for \$300 million. Plans to issue debt in 2001 under the shelf registration are under consideration by Management.

Management believes the Company will continue to have adequate access to credit and other capital markets to meet its needs for the foreseeable future.

Forward-looking Statements

This document contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements relate to analyses and other information which are based on forecasts of future results and estimates of amounts not yet determinable. These statements also relate to the future prospects, developments and business strategies of Engelhard. These forward-looking statements are identified by their use of terms and phrases such as "anticipate," "believe," "could," "estimate," "expect," "intend," "may," "plan," "predict," "project," "will" and similar terms and phrases, including references to assumptions. These forward-looking statements involve risks and uncertainties that may cause Engelhard's actual future activities and results of operations to be materially different from those suggested or described in this document. These risks include: competitive pricing or product development activities; Engelhard's ability to achieve and execute internal business plans;

Edgar Filing: ENGELHARD CORP - Form 10-Q

global economic trends; worldwide political instability and economic growth; markets, alliances and geographic expansions developing differently than anticipated; fluctuations in the supply and prices of precious and base metals; government legislation and/or regulation (particularly on environmental issues); technology, manufacturing and legal issues; and the impact of any economic downturns and inflation. Investors are cautioned not to place undue reliance upon these forward-looking statements, which speak only as of their dates. Engelhard disclaims any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

16

Part II - OTHER INFORMATION

Item 6.	Exhibits and Reports on Form 8-K	Pages
-----	-----	-----
(a) (10)	Material Contracts	
	(a) Amendment to Deferred Compensation Plan for Key Employees of Engelhard Corporation, effective October 4, 2001.	19-20
(12)	Computation of the Ratio of Earnings to Fixed Charges.	21-22
(b)	There were no reports on Form 8-K filed during the quarter ended September 30, 2001.	

17

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)

Date November 9, 2001

/s/ Barry W. Perry

Barry W. Perry
Chairman and
Chief Executive Officer

Date November 9, 2001

/s/ Michael A. Sperduto

Michael A. Sperduto
Vice President and
Chief Financial Officer

EXHIBIT (10) (a)

Amendment to Deferred Compensation Plan For Key Employees
of Engelhard Corporation

AMENDMENT TO DEFERRED COMPENSATION
PLAN FOR KEY EMPLOYEES OF ENGELHARD CORPORATION

The Deferred Compensation Plan for Key Employees of Engelhard Corporation (the "Plan") is amended as follows, effective October 4, 2001.

1. The first two sentences of paragraph 2 of the Plan are amended to read in their entirety as follows :

"Each Eligible Employee shall have the option exercisable by written notice to the Company on or before November 30 of any calendar year to defer payment of (i) up to thirty percent (30%) of his base salary for the next succeeding calendar year and (ii) all or any portion of any regular or special bonus the amount of which has not been determined as of the date of the deferral election and which is to be paid in the next succeeding calendar year. Notwithstanding the foregoing, in the case of an individual who first becomes an Eligible Employee during a calendar year, such individual shall have the option exercisable by written notice to the Company to defer payment of up to thirty percent (30%) of his base salary for the period during such calendar year beginning on the date specified by the individual in his deferral election (which shall be at least one month after the date on which the deferral election is filed with the Company) and ending on the last day of such calendar year."

EXHIBIT 12

COMPUTATION OF THE RATIO OF EARNINGS TO FIXED CHARGES

ENGELHARD CORPORATION
 COMPUTATION OF THE RATIO OF EARNINGS TO FIXED CHARGES
 (Dollars in Thousands)
 (Unaudited)

	Nine Months Ended September 30,	Years Ended De		
	----- 2001 -----	----- 2000 -----	----- 1999 -----	----- 1998 -----
Earnings from continuing operations before provision for income taxes	\$230,835	\$245,687	\$284,118	\$260,563
Add/ (deduct)				
Portion of rents representative of the interest factor	6,600	8,800	7,000	3,500
Interest on indebtedness	36,740	62,649	56,555	58,887
Equity dividends	4,158	4,363	2,431	2,022
Equity in (earnings) losses of affiliates	(23,928)	(24,187)	(16,266)	(10,077)
	-----	-----	-----	-----
Earnings, as adjusted	\$254,405 =====	\$297,312 =====	\$333,838 =====	\$314,895 =====
Fixed Charges				
Portion of rents representative of the interest factor	\$ 6,600	\$ 8,800	\$ 7,000	\$ 3,500
Interest on indebtedness	36,740	62,649	56,555	58,887
Capitalized interest	2,250	3,880	2,580	1,897
	-----	-----	-----	-----
Fixed charges	\$45,590 =====	\$ 75,329 =====	\$ 66,135 =====	\$ 64,284 =====

Edgar Filing: ENGELHARD CORP - Form 10-Q

Ratio of Earnings to Fixed Charges	5.58 (a)	3.95 (b)	5.05	4.90
	=====	=====	=====	=====

- (a) Earnings in 2001 were negatively impacted by pre-tax special and other charges of \$7.1 million of assets between the Company's kaolin-based operations in Middle Georgia and its petroleum operations in Savannah, GA. Excluding this charge, the ratio of earnings to fixed charges would have been 5.05.
- (b) Earnings in 2000 were negatively impacted by pre-tax special and other charges of \$134.2 million. Excluding these charges, the ratio of earnings to fixed charges would have been 5.73.
- (c) Earnings in 1997 were negatively impacted by special and other charges of \$149.6 million. Excluding these charges, the ratio of earnings to fixed charges would have been 5.28.