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ENGELHARD CORP
Form 10-Q
August 13, 2002

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 June 30, 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 1-8142

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)

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 July 31, 2002

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\$1 par value

128,626,908

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 June 30,		Six Months Ended June 30,	
	2002	2001	2002	2001
Net sales	\$ 982,314	\$1,471,576	\$1,984,135	\$3,082,893
Cost of sales	805,158	1,298,506	1,646,287	2,743,575
Gross profit	177,156	173,070	337,848	339,318
Selling, administrative and other expenses	95,800	87,846	183,411	175,425
Special (credit)/charge	(7,862)	7,100	(7,862)	7,100
Operating earnings	89,218	78,124	162,299	156,793
Equity in earnings of affiliates	4,408	14,955	8,070	20,408
Loss on investments.....	(6,659)	-	(6,659)	-
Interest expense, net	(6,868)	(12,789)	(13,788)	(27,132)
Earnings before income taxes	80,099	80,290	149,922	150,069
Income tax expense	20,024	20,790	37,480	42,770
Net earnings	\$ 60,075	\$ 59,500	\$ 112,442	\$ 107,299
Basic earnings per share	\$ 0.47	\$ 0.45	\$ 0.87	\$ 0.83
Diluted earnings per share ...	\$ 0.46	\$ 0.45	\$ 0.85	\$ 0.81
Cash dividends paid per share	\$ 0.10	\$ 0.10	\$ 0.20	\$ 0.20
Average number of shares outstanding - basic	128,707	131,098	128,750	129,674
Average number of shares outstanding - diluted	131,673	133,704	131,544	131,877

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See the Accompanying Notes to the Unaudited Condensed Consolidated
Financial Statements

2

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

	June 30, 2002	December 31, 2001
	-----	-----
Cash	\$ 57,015	\$ 33,034
Receivables, net.....	385,462	347,656
Committed metal positions	453,692	569,109
Inventories	413,776	401,647
Other current assets	165,781	142,301
	-----	-----
Total current assets	1,475,726	1,493,747
Investments	212,309	213,467
Property, plant and equipment, net	824,203	822,520
Goodwill	271,910	253,603
Other intangible and noncurrent assets.....	184,470	212,212
	-----	-----
Total assets	\$2,968,618	\$2,995,549
	=====	=====
Short-term borrowings	\$ 369,044	\$ 389,051
Accounts payable	156,640	252,319
Hedged metal obligations	505,852	517,681
Other current liabilities	347,930	341,749
	-----	-----
Total current liabilities	1,379,466	1,500,800
Long-term debt	241,184	237,853
Other noncurrent liabilities	248,471	253,390
Shareholders' equity	1,099,497	1,003,506
	-----	-----
Total liabilities and shareholders' equity	\$2,968,618	\$2,995,549
	=====	=====

See the Accompanying Notes to the Unaudited Condensed Consolidated
Financial Statements

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

	Six Months Ended June 30,	
	2002	2001
Cash flows from operating activities		
Net earnings	\$ 112,442	\$ 107,299
Adjustments to reconcile net earnings to net cash provided by/(used in) operating activities		
Depreciation and depletion	52,632	46,592
Amortization of intangible assets	1,515	6,772
Loss on investments.....	6,659	-
Equity results, net of dividends.....	(4,317)	(16,251)
Net change in assets and liabilities		
Metal related	7,706	(138,808)
All other	(6,449)	(32,833)
Net cash provided by/(used in) operating activities.....	170,188	(27,229)
Cash flows from investing activities		
Capital expenditures	(46,196)	(71,743)
Proceeds from sale of investments.....	-	3,400
Acquisitions and other investments.....	(2,400)	(3,000)
Net cash used in investing activities	(48,596)	(71,343)
Cash flows from financing activities		
Decrease in short-term borrowings.....	(20,008)	(77,778)
(Decrease)/increase in hedged metal obligations.....	(11,708)	152,103
Repayment of long-term debt.....	(153)	(8,910)
Purchase of treasury stock.....	(90,545)	(25,183)
Stock option plan transactions.....	45,335	87,613
Dividends paid	(25,914)	(26,334)
Net cash (used in)/provided by financing activities	(102,993)	101,511
Effect of exchange rate changes on cash	5,382	(3,477)
Net increase/(decrease) in cash.....	23,981	(538)
Cash at beginning of year.....	33,034	33,534

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Cash at end of period.....	\$ 57,015	\$ 32,996
	=====	=====

See the Accompanying Notes to the Unaudited Condensed Consolidated
Financial Statements

4

ENGELHARD CORPORATION BUSINESS SEGMENT INFORMATION (Thousands) (Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2002	2001	2002	2001
Net Sales				
Environmental Technologies ..	\$ 170,564	\$ 176,755	\$ 335,005	\$ 345,237
Process Technologies	136,407	147,066	251,852	282,780
Appearance and Performance Technologies.....	170,632	174,629	323,002	330,598
Materials Services.....	495,564	967,137	1,056,293	2,111,017
Reportable segments ...	973,167	1,465,587	1,966,152	3,069,632
All other	9,147	5,989	17,983	13,261
	\$ 982,314	\$1,471,576	\$1,984,135	\$3,082,893
	=====	=====	=====	=====
Operating Earnings				
Environmental Technologies ..	\$ 27,983	\$ 36,707	\$ 67,644	\$ 79,133
Process Technologies	22,972	22,677	40,041	39,011
Appearance and Performance Technologies.....	24,720	11,409	39,851	21,513
Materials Services.....	27,245	13,082	37,423	34,254
Reportable segments ...	102,920	83,875	184,959	173,911
All other	(13,702)	(5,751)	(22,660)	(17,118)
	89,218	78,124	162,299	156,793
Equity in earnings of affiliates	4,408	14,955	8,070	20,408
Loss on investments.....	(6,659)	-	(6,659)	-
Interest expense, net	(6,868)	(12,789)	(13,788)	(27,132)
Earnings before income taxes	80,099	80,290	149,922	150,069
Income tax expense	20,024	20,790	37,480	42,770

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Net earnings	\$ 60,075	\$ 59,500	\$ 112,442	\$ 107,299
	=====	=====	=====	=====

See the Accompanying Notes to the Unaudited Condensed Consolidated
Financial Statements

5

Notes to the Unaudited Condensed Consolidated Financial Statements

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 presentation 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 2001 Annual Report to Shareholders. The unaudited condensed consolidated financial statements include the accounts of the Company and its subsidiaries. All significant intercompany transactions and balances have been eliminated in consolidation. Certain prior-year amounts have been reclassified to conform with the current-year presentation.

Note 2 - Special Charges and Credits

In the second quarter of 2002, the Company recorded a charge of \$3.1 million (\$1.9 million after tax or \$0.01 per share on a diluted basis) primarily related to a manufacturing consolidation plan within a business that serves the aerospace turbine-engine overhaul and repair market in the Company's Environmental Technologies segment. This charge includes asset write-offs of \$1.7 million, employee severance costs of \$0.6 million and other exit costs of \$0.8 million related to the plant closure. The employee severance charges include the reduction of 46 salaried employees.

In the second quarter of 2002, the Company recorded a gain of \$11.0 million (\$6.8 million after tax or \$0.05 per share on a diluted basis) related to insurance settlements stemming from events in 1997 and 1998 in which Engelhard and other companies were victimized in an elaborate scheme involving base-metal inventories held in third-party warehouses in Japan (see Note 10, "Other Matters," for further detail). A special charge recorded by the Company in 1997 included an inventory loss of approximately \$40 million associated with the Japan matter. An additional \$20 million inventory loss was recorded in 1998. In the first quarter of 1998, the Company recorded a receivable from insurance carriers and third parties involved for approximately \$20 million. As of June 30, 2002, the Company had recovered \$11.2 million. In July 2002, the Company received an additional \$19.8 million, net of legal fees, from insurance settlements reached in June. Accordingly, the Company recorded a gain of \$11.0

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million in the second quarter of 2002 in its Materials Services segment.

The Company recorded a special charge of \$7.1 million (\$4.3 million after tax or \$0.03 per share on a diluted basis) in the second quarter of 2001 related to the redeployment of assets between the Company's kaolin-based operations in Middle Georgia and its petroleum refining catalysts facility in Savannah, Georgia. This charge includes employee severance costs of \$3.2 million, asset write-offs of \$2.6 million and other costs of \$1.3 million related to the asset redeployment actions and productivity improvements. The employee severance charges include the reduction of 57 salaried employees primarily located at the Middle Georgia facility, while an additional 154 hourly employees were terminated as a result of this action. This charge was recorded in the Appearance and Performance Technologies segment. These actions are expected to be substantially complete by the end of 2002.

6

Note 3 - Plug Power Investment Impairment

In the second quarter of 2002, the Company recorded an impairment charge of \$6.7 million (\$4.1 million after tax or \$0.03 per share on a diluted basis) associated with an investment. The write down was taken to reflect the lower current value of an investment in fuel-cell developer Plug Power Inc. This investment was made as part of agreements between the two companies for development of advanced materials for fuel cells. The carrying amount of this investment has been reduced to its estimated fair value based on quoted market prices. Plug Power designs and develops on-site electric power generation systems utilizing proton exchange membrane fuel cells for stationary applications. This impairment charge was reported in the Company's "All Other" category and was recorded in "Loss on investments" in the Company's "Condensed Consolidated Statements of Earnings."

Note 4 - Inventories

Inventories consist of the following (in thousands):

	June 30, 2002	December 31, 2001
	-----	-----
Raw materials	\$ 100,034	\$ 91,994
Work in process	63,606	67,175
Finished goods	228,706	221,916
Precious metals	21,430	20,562
	-----	-----
Total inventories	\$ 413,776	\$ 401,647
	=====	=====

The majority of the Company's physical metal is carried in committed metal positions with the remainder carried in inventory. All precious metals included in inventory are stated at LIFO cost. The market value of the precious metals inventories exceeded cost by \$86.6 million and \$111.1 million at June 30, 2002 and December 31, 2001, respectively.

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Note 5 - Comprehensive Income

Comprehensive income is summarized as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2002	2001	2002	2001
Net earnings	\$ 60,075	\$ 59,500	\$ 112,442	\$ 107,299
Other comprehensive income/(loss):				
Foreign currency				
translation adjustment.....	51,289	(25,269)	33,762	(57,911)
Cash flow hedge adjustment,				
net of tax.....	780	(6,005)	3,994	(5,214)
Comprehensive income	\$ 112,144	\$ 28,226	\$ 150,198	\$ 44,174

7

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 7, "Derivatives and Hedging," for details on the cash flow hedge adjustment.

Note 6 - Earnings Per Share

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands, except per share data)	2002	2001	2002	2001
Basic EPS Computation				
Net earnings applicable to common shares	\$ 60,075	\$ 59,500	\$112,442	\$107,299
Average number of shares outstanding - basic	128,707	131,098	128,750	129,674
Basic earnings per share	\$ 0.47	\$ 0.45	\$ 0.87	\$ 0.83
Diluted EPS Computation				
Net earnings applicable to common shares	\$ 60,075	\$ 59,500	\$112,442	\$107,299
Average number of shares outstanding - basic	128,707	131,098	128,750	129,674
Effect of dilutive stock options				

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and other incentives	2,966	2,606	2,794	2,203
	-----	-----	-----	-----
Average number of shares outstanding - diluted	131,673	133,704	131,544	131,877
	-----	-----	-----	-----
Diluted earnings per share	\$ 0.46	\$ 0.45	\$ 0.85	\$ 0.81
	=====	=====	=====	=====

Note 7 - Derivatives and Hedging

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 cash flow 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 will continue to mark to market both the hedge instrument and the related position constituting the risk hedged, recognizing the net effect in current earnings.

8

The Company documents all relationships between derivative hedging instruments and items impacted by cash flow hedges at the time the hedges are initiated, as well as its risk-management objectives and strategy for entering into various hedge transactions. For the three and six-month periods ended June 30, 2002 and 2001, there was no gain or loss recognized in earnings resulting from hedge ineffectiveness.

Foreign Exchange Contracts

The Company designates as cash flow 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 sale or purchase transaction.

For the three and six-month periods ended June 30, 2002, the Company reported after-tax losses of \$0.4 million and \$0.6 million, respectively, in accumulated other comprehensive income relating to the change in the fair value of derivatives designated as foreign exchange cash flow hedges. For the three and six-month periods ended June 30, 2001, the Company reported after-tax losses of \$0.1 million and after-tax gains of \$1.0 million, respectively, in accumulated other comprehensive income relating to the change in the fair value of derivatives designated as foreign exchange cash flow hedges. It is expected that losses of \$0.4 million reported at June 30, 2002 will be reclassified into earnings within the next six 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 June 30, 2002, the maximum length of time over which the Company is hedging its exposure to movements in foreign exchange rates for forecasted transactions is six months.

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

Commodity Contracts (Primarily Energy Related)

The Company enters into contracts that are designated as cash flow hedges to protect a portion of its exposure to movements in certain commodity prices. The ultimate maturities of the contracts are timed to coincide with the expected purchase of these commodities.

For the three and six-month periods ended June 30, 2002, the Company reported after-tax gains of \$1.2 million and \$4.6 million, respectively, in accumulated other comprehensive income relating to the change in the fair value of derivatives designated as cash flow commodity hedges. For the three and six-month periods ended June 30, 2001, the Company reported after-tax losses of \$5.9 million and \$6.2 million, respectively, in accumulated other comprehensive income relating to the change in the fair value of derivatives designated as cash flow commodity hedges. These losses primarily relate to derivatives designated as natural gas cash flow hedges. It is expected that losses of \$0.2 million reported at June 30, 2002 will be reclassified into earnings within the next six months. As of June 30, 2002, the maximum length of time over which the Company is hedging its exposure to movements in commodity prices for forecasted transactions is six months.

9

Note 8 - Goodwill and Other Intangible Assets

The Company adopted Statement of Financial Accounting Standards (SFAS) No. 141, "Business Combinations," for all acquisitions made after June 30, 2001. This statement requires that all business combinations be accounted for by the purchase method and that intangible assets be recognized apart from goodwill if they meet certain criteria. Adoption of this statement did not have a material effect on the Company's financial statements.

The Company adopted Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets," on January 1, 2002. SFAS No. 142 addresses post-acquisition financial accounting and reporting for acquired goodwill and other intangible assets. Under this new statement, goodwill and other intangible assets that have indefinite useful lives will not be amortized, but rather will be tested for impairment based on the specific guidance of SFAS No. 142. The Company did not recognize an impairment loss as a result of the impairment testing that was completed by June 30, 2002.

The following table sets forth the pro forma impact of applying the new non-amortization provisions of SFAS No. 142 on net income and earnings per share reported for the three and six-month periods ended June 30, 2001 (in thousands, except per-share amounts):

Three Months Ended
June 30,

Six Months Ended
June 30

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	2002 (as reported)	2001 (pro forma)	2002 (as reported)	(p
Net Income				
Reported net income.....	\$ 60,075	\$ 59,500	\$ 112,442	\$
Add back: Goodwill amortization, net of tax..	-	2,177	-	
Tradename amortization, net of tax.	-	156	-	
Adjusted net income.....	\$ 60,075	\$ 61,833	\$ 112,442	\$
Basic Earnings Per Share				
Reported basic earnings per share.....	\$ 0.47	\$ 0.45	\$ 0.87	\$
Add back: Goodwill amortization, net of tax..	-	0.02	-	
Tradename amortization, net of tax.	-	-	-	
Adjusted basic earnings per share.....	\$ 0.47	\$ 0.47	\$ 0.87	\$
Diluted Earnings Per Share				
Reported diluted earnings per share.....	\$ 0.46	\$ 0.45	\$ 0.85	\$
Add back: Goodwill amortization, net of tax..	-	0.02	-	
Tradename amortization, net of tax.	-	-	-	
Adjusted diluted earnings per share.....	\$ 0.46	\$ 0.47	\$ 0.85	\$

10

The following table sets forth the gross carrying amount and accumulated amortization of the Company's acquired amortizable intangible assets (in thousands):

	As of June 30, 2002		As of December
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount
Acquired Amortizable Intangible Assets			
Usage right.....	\$ 16,175	\$ 1,883	\$ 14,611
Supply agreements.....	14,673	2,725	13,544
Technology licenses.....	7,038	1,313	3,804
Other (a).....	3,578	1,850	24,702
Total	\$ 41,464	\$ 7,771	\$ 56,661

As of June 30, 2002, the estimated aggregate amortization expense for each of the five succeeding years is as follows (in thousands):

Estimated Annual Amortization Expense:

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2002	\$ 2,917
2003	2,979
2004	2,904
2005	2,841
2006	2,649

The following table represents the changes in the carrying amount of goodwill for the six-month period ended June 30, 2002 (in thousands):

	Environmental Technologies	Process Technologies	Appearance & Performance Technologies	
	-----	-----	-----	-----
Balance as of January 1, 2002	\$ 12,333	\$ 108,172	\$ 132,274	\$
Goodwill additions	800	-	-	
Reclass of other intangible asset (a)	-	-	18,614	
Foreign currency translation adjustment	363	(2)	940	
Purchase accounting adjustment	-	(1,900)	-	
Other	(172)	-	-	
	-----	-----	-----	-----
Balance as of June 30, 2002	\$ 13,324	\$ 106,270	\$ 151,828	\$
	=====	=====	=====	=====

- (a) SFAS No. 141 provides that an intangible asset shall be recognized apart from goodwill if it arises from contractual or other legal rights or if it is separable from the acquired entity. In accordance with the transition provisions of the statement, the Company reviewed its intangible assets to determine if they met the new criteria. As a result, it was determined that an other intangible asset of \$18.6 million did not meet the new criteria and should thus be recognized as goodwill upon adoption of SFAS No. 142.

11

Note 9 - Committed Metal Positions and Hedged Metal Obligations

Both spot metal and derivative instruments are stated at fair value. Fair value is based on published market prices. The following table sets forth the Company's unhedged metal positions included in committed metal positions in the Company's "Consolidated Balance Sheets":

Metal Positions Information (in millions):

	June 30, 2002		December 31, 2001	
	Gross Position	Value	Gross Position	Value
	-----	-----	-----	-----
Platinum group metals	Long	\$ 24.1	Long	\$ 44.3
Gold	Long	1.0	Long	0.2
Silver	Short	2.9	Long	0.9
Base Metals	Short	4.1	Short	5.9

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Total unhedged metal positions	----- \$ 32.1 =====	----- \$ 51.3 =====
--------------------------------	---------------------------	---------------------------

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 by a total of \$177.4 million. This excess may grow or may be eliminated based on market price changes. The Company expects it will be settled through the receipt of cash or metals and that no loss will be incurred due to non-performance.

Derivative metal and foreign currency instruments are used to hedge metal positions and obligations. Over 99% of these instruments have settlement terms of less than one year. The remaining instruments are expected to settle within two years. These derivative metal and foreign currency instruments consist of the following:

Metal Hedging Instruments (in millions):

	June 30, 2002		December 31, 2001	
	-----		-----	
	Buy	Sell	Buy	Sell
	-----	-----	-----	-----
Metal forwards/futures	\$ 1,826.7	\$ 970.7	\$ 1,510.5	\$ 699.1
Eurodollar futures	263.9	182.4	93.2	127.2
Swaps	37.1	38.1	38.3	24.1
Options	55.1	63.6	72.0	64.4
Foreign exchange forwards/futures	17.9	0.3	-	24.8

Note 10 - Other Matters

In 1998, Management learned that Engelhard and several other companies operating in Japan had been victims of an elaborate 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. 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. As of June 30, 2002, the Company had recovered \$11.2 million. In July 2002, the Company received an additional \$19.8 million, net of legal fees, from insurance settlements reached in June. Accordingly, the Company recorded a gain of \$11.0 million (\$6.8 million after tax or \$0.05 per share on a diluted basis) in the second quarter of 2002 in its Materials Services segment.

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The Company is involved in a value-added tax dispute in Peru. Management believes the Company was targeted by corrupt officials within a 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, S.A. 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.

13

Item 2. Management's Discussion and Analysis of
Financial Condition and Results of Operations

Results of Operations

Comparison of the Second Quarter of 2002
with the Second Quarter of 2001

Net earnings increased slightly to \$60.1 million in the second quarter of 2002 from \$59.5 million in the same period of 2001. Operating earnings for the second quarter of 2002 increased 14% to \$89.2 million from \$78.1 million in the

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same period of 2001. Excluding an \$11.0 million insurance settlement gain and a \$3.1 million manufacturing consolidation charge reported in the second quarter of 2002, and a \$7.1 million charge reported in the second quarter of 2001 relating to asset redeployment actions and productivity improvements, operating earnings would have decreased 5% from the same period of 2001. Lower operating earnings from Environmental Technologies were partially offset by higher operating earnings from Appearance and Performance Technologies and Materials Services. Operating earnings from Process Technologies were essentially flat from the year-ago quarter. Operating earnings in the Company's "All-Other" category decreased primarily from increased professional fees, increased information technology expenses and increased insurance costs.

The effective tax rate was 25.0% in the second quarter of 2002 compared with 25.9% in the same period of 2001. The decrease in the effective tax rate was primarily due to the recognition of foreign tax credits, the recognition of favorable tax variances from percentage depletion deductions and a shift in the geographic mix of earnings. As a result of specific developments that are anticipated, the effective tax rate is expected to be below 25.0% for the full year.

The Company's share of earnings from affiliates was \$4.4 million for the second quarter of 2002 compared with \$15.0 million for the same period in 2001. The decrease was primarily from lower equity earnings from Engelhard-CLAL, a 50%-owned precious-metal-fabrication joint venture. Equity earnings from Engelhard-CLAL were lower primarily from gains reported in the prior year related to a change in the mix of platinum group metals used in its operations.

As of June 30, 2002, the Company's accumulated other comprehensive loss included a foreign currency translation loss of approximately \$10.8 million relating to its Engelhard-CLAL joint venture. At this time, in accordance with Statement of Financial Accounting Standards No. 52, "Foreign Currency Translation," the joint venture's assets are held for use and therefore the associated foreign currency translation loss has not been included in the carrying value of the investment when assessing the investment for impairment. Accordingly, at June 30, 2002, the investment is not impaired. The Company, in conjunction with its partner, is in the process of developing a plan to reorganize the joint venture and distribute a significant portion of its assets to the Company and its partner. At such time when an agreement is reached, the Company will commit to a plan and include the foreign currency translation loss as part of the carrying amount of this investment when evaluating the investment for impairment. If and when this happens, it will be likely that the carrying value of the joint venture will exceed the fair value of the investment, thus resulting in the recognition of an impairment loss in current earnings.

Net interest expense decreased 46% to \$6.9 million in the second quarter of 2002 from \$12.8 million for the same period of 2001. Lower net interest expense was due to decreased borrowings and lower short-term interest rates.

14

Net sales decreased 33% to \$1.0 billion in the second quarter of 2002 from \$1.5 billion for the same period in 2001. Lower sales were primarily from decreased sales in the Materials Services segment as a result of lower platinum group metals prices and volumes.

Environmental Technologies

Operating earnings decreased 24% to \$28.0 million in the second quarter of 2002 from \$36.7 million in the same period of 2001. Excluding the \$3.1 million manufacturing consolidation charge reported in the second quarter of 2002,

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operating earnings would have decreased 15% from the same period of 2001 (see Note 2, "Special Charges and Credits," for further detail). Net sales for the second quarter of 2002 decreased 4% to \$170.6 million from \$176.8 million in the same period of 2001.

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. Operating earnings from auto-emission catalysts increased primarily from higher sales volumes in North America and a more favorable vehicle platform mix. Sales volumes were favorably impacted by an estimated 3% increase in worldwide production of light-duty vehicles.

Operating earnings were lower in the segment's non-automotive markets, primarily from decreased sales volumes of emission-control systems for gas turbines and increased development and start-up costs related to new technologies for diesel OEM and power generation applications.

Process Technologies

Operating earnings increased slightly to \$23.0 million in the second quarter of 2002 from \$22.7 million in the same period of 2001. Net sales for the second quarter of 2002 decreased 7% to \$136.4 million from \$147.1 million in the same period of 2001.

Operating earnings were up as the benefits of lower energy and raw material costs and a favorable product mix were partially offset by lower sales volumes to chemical-production markets. Sales were negatively impacted by lower precious metal prices, which are passed through to chemical-production catalyst customers in Europe.

Appearance and Performance Technologies

Operating earnings increased 117% to \$24.7 million in the second quarter of 2002 from \$11.4 million in the same period of 2001. Excluding the \$7.1 million charge reported in the second quarter of 2001 relating to asset redeployment actions and productivity improvements, operating earnings would have increased 34% from the same period of 2001 (see Note 2, "Special Charges and Credits," for further detail). Net sales decreased 2% to \$170.6 million for the second quarter of 2002 from \$174.6 million in the same period of 2001.

Operating earnings were up as the benefit from the redeployment of assets in 2001, improved productivity and lower operating costs was partially offset by lower sales volumes. Sales decreased as lower volumes to the paper market were partially offset by higher volumes to the coatings market.

Materials Services

Operating earnings increased 108% to \$27.2 million in the second quarter of 2002 from \$13.1 million in the same period of 2001. Excluding the \$11.0 million insurance settlement gain reported in the second quarter of 2002, operating earnings would have increased 24% from the same period of 2001 (see Note 2, "Special Charges and Credits," for further detail). Net sales for the second

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quarter of 2002 decreased 49% to \$495.6 million from \$967.1 million in the same period of 2001.

Operating earnings increased as the favorable impact from the timing of platinum group metal transactions was partially offset by lower volumes and lower results from the recycling (refining) of platinum group metals. Income related to certain platinum-group-metal transactions realized previously but deferred pending the resolution of certain pricing provisions was recognized in the second quarter of 2002 when those pricing provisions were agreed upon contractually. Sales decreased from lower platinum-group-metals prices and lower volumes.

Comparison of the First Six Months of 2002
with the First Six Months of 2001

Net earnings increased 5% to \$112.4 million in the first six months of 2002 from \$107.3 million in the same period of 2001. Operating earnings for the first six months of 2002 increased 4% to \$162.3 million from \$156.8 million in the same period of 2001. Excluding an \$11.0 million insurance settlement gain and a \$3.1 million manufacturing consolidation charge reported in the second quarter of 2002, and a \$7.1 million charge reported in the second quarter of 2001 relating to asset redeployment actions and productivity improvements, operating earnings would have decreased 6% from the same period of 2001. Lower operating earnings from two reportable segments -- Environmental Technologies and Materials Services -- were partially offset by higher operating earnings from Appearance and Performance Technologies and Process Technologies. Operating earnings in the Company's "All-Other" category decreased primarily from increased professional fees, increased information technology expenses and increased insurance costs.

The effective tax rate was 25.0% in the first six months of 2002 compared with 28.5% for the same period of 2001. The decrease in the effective tax rate was primarily due to the recognition of foreign tax credits, the recognition of favorable tax variances from percentage depletion deductions and a shift in the geographic mix of earnings. As a result of specific developments that are anticipated, the effective tax rate is expected to be below 25.0% for the full year.

The Company's share of earnings from affiliates was \$8.1 million for the first six months of 2002 compared with \$20.4 million for the same period in 2001. The decrease was primarily from lower equity earnings from Engelhard-CLAL, a 50%-owned precious-metal-fabrication joint venture. Equity earnings from Engelhard-CLAL were lower primarily from gains reported in the prior year related to a change in the mix of platinum group metals used in its operations.

Net interest expense decreased 49% to \$13.8 million in the first six months of 2002 from \$27.1 million in the same period of 2001. Lower net interest expense was due to decreased borrowings and lower short-term interest rates.

Net sales decreased 36% to \$2.0 billion in the first six months of 2002 from \$3.1 billion in the same period in 2001. Lower sales were primarily from decreased sales in the Materials Services segment as a result of lower platinum-group-metals prices and volumes.

16

Environmental Technologies

Operating earnings decreased 15% to \$67.6 million in the first six months

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of 2002 from \$79.1 million in the same period of 2001. Excluding the \$3.1 million manufacturing consolidation charge reported in the second quarter of 2002, operating earnings would have decreased 11% from the same period of 2001. Net sales for the first six months of 2002 decreased 3% to \$335.0 million from \$345.2 million in the same period of 2001.

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. Operating earnings from auto-emission catalysts decreased primarily from lower sales volumes in Europe and a less favorable vehicle platform mix.

Operating earnings were lower in the segment's non-automotive markets, primarily from decreased sales volumes of emission-control systems for gas turbines and increased development and start-up costs related to new technologies for diesel OEM and power generation applications. This decrease was partially offset by the reversal of a warranty accrual that was no longer necessary. In the first quarter of 2002, the Company reduced its warranty accrual for the stationary-source, emission-control capital equipment business by \$4.9 million (\$3.0 million after tax or \$0.02 per share on a diluted basis) as a result of improved catalyst technology.

Process Technologies

Operating earnings increased 3% to \$40.0 million in the first six months of 2002 from \$39.0 million in the same period of 2001. Net sales for the first six months of 2002 decreased 11% to \$251.9 million from \$282.8 million in the same period of 2001.

Operating earnings were up as the benefits of lower energy and raw material costs and a favorable product mix were partially offset by lower sales volumes to chemical-production and petroleum-refining markets. Sales were negatively impacted by lower precious metal prices, which are passed through to chemical-production catalyst customers in Europe.

Appearance and Performance Technologies

Operating earnings increased 85% to \$39.9 million in the first six months of 2002 from \$21.5 million in the same period of 2001. Excluding the \$7.1 million charge reported in the second quarter of 2001 relating to asset redeployment actions and productivity improvements, operating earnings would have increased 39% from the same period of 2001. Net sales for the first six months of 2002 decreased 2% to \$323.0 million from \$330.6 million in the same period of 2001.

Operating earnings were up as the benefit from the redeployment of assets in 2001, improved productivity and lower operating costs was partially offset by lower sales volumes. Sales decreased as lower volumes to the paper and automotive finish markets were partially offset by higher volumes to the coatings market.

Operating earnings increased 9% to \$37.4 million in the first six months of 2002 from \$34.3 million in the same period of 2001. Excluding the \$11.0 million insurance settlement gain reported in the second quarter of 2002, operating earnings would have decreased 23% from the same period of 2001. Net sales for the first six months of 2002 decreased 50% to \$1.1 billion from \$2.1 billion in the same period of 2001.

Operating earnings were down as lower volumes and lower results from the recycling (refining) of platinum group metals were partially offset by the favorable impact from the timing of platinum-group-metal transactions and a contractual benefit realized in the first quarter of 2002. Income related to certain platinum-group-metal transactions realized previously but deferred pending the resolution of certain pricing provisions was recognized in the second quarter of 2002 when those pricing provisions were agreed upon contractually. Sales decreased from lower platinum-group-metals prices and lower volumes.

Financial Condition and Liquidity

Working capital was \$96.3 million at June 30, 2002 compared with a deficit of \$7.1 million at December 31, 2001. The Company's current ratio was 1.1 at June 30, 2002 compared to 1.0 at December 31, 2001. The percentage of total debt to total capitalization decreased to 36% at June 30, 2002 from 38% at December 31, 2001 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 have been set by senior Management, the Company from time to time holds large unhedged industrial commodity positions that are subject to future market price fluctuations. These positions are included in committed metal positions along with hedged metal holdings. The bulk of hedged metal obligations represents spot short positions. As these positions generate cash, their cash effect is included in the financing activities section of the Company's "Consolidated Statements of Cash Flows." Other than in closely monitored situations, these positions are hedged with forward purchases. In addition, the aggregate fair value of derivatives in a loss position are reported in hedged metal obligations (derivatives in a gain position are included in committed metal positions). 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 by a total of \$177.4 million. This excess may grow or may be eliminated based on market price changes. The Company expects it will be settled through the receipt of cash or metals and that no loss will be incurred due to non-performance.

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The variance in cash flows from financing activities is primarily related to a change in hedged metal obligations, an increase in the purchase of treasury stock and a decrease in stock option plan transactions associated with the exercise of stock options.

The Company has filed a shelf registration for \$300 million of Corporate debt. Plans to issue debt under the shelf registration are under consideration by Management.

The Company has consistently derived considerable cash flow from operations, which has been used, along with both short- and long-term debt, to pay for capital expenditures, acquisitions, dividends and other corporate requirements. The continuation of these levels of cash flow is expected but is subject to risk factors disclosed in the Company's 2001 Form 10-K and in the Forward-Looking Statements section below. In addition, the Company has always maintained investment-grade credit ratings that it considers important for cost-effective and ready access to the credit markets. Management fully expects to be able to obtain future funding from both short- and long-term debt for cash requirements in excess of those from operations. In the event that any of these sources prove to be below expectations, the Company has access to committed lines of credit aggregating \$800 million as of June 30, 2002.

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; 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.

Part II - OTHER INFORMATION

Item 4. Results of Matters to a Vote of Security Holders

(a) The Company's Annual Meeting of the Shareholders was held on Thursday, May 2, 2002.

(b) Results of votes of security holders.

1.	Election of Directors	For	Withheld
	Barry W. Perry	92,767,125	22,138,855
	Douglas G. Watson	108,705,200	6,200,780

Marion H. Antonini, James V. Napier, Norma T. Pace and Henry R. Slack continued as Directors after the annual meeting.

2. Approval of the Engelhard Corporation 2002 Long Term Incentive Plan:

	For	Against	Abstain
	96,988,141	17,038,868	878,971

Item 6. Exhibits and Reports on Form 8-K

(a) (10) Material Contracts

(a) 2002 Share Performance Incentive Plan, effective May 2, 2002. 22-25

(b) Engelhard Corporation 2002 Long Term Incentive Plan, effective May 2, 2002 (incorporated by reference to the 2001 Proxy Statement filed with the Securities and Exchange Commission on March 26, 2002). *

(12) Computation of the Ratio of Earnings to Fixed Charges. 26-27

(b) In a report on Form 8-K filed with the Securities and Exchange Commission on May 3, 2002, the Company reported that it changed its certifying accountant. *

In a report on Form 8-K filed with the Securities and Exchange Commission on August 9, 2002, the Company reported that its Principal Executive Officer and its Principal Financial Officer had filed sworn statements with the Securities and Exchange Commission pursuant to order of the Commission dated June 27, 2002. *

* Incorporated by reference as indicated.

20

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: August 13, 2002

/s/ Barry W. Perry

Barry W. Perry
Chairman and Chief
Executive Officer

Date: August 13, 2002

/s/ Michael A. Sperduto

Michael A. Sperduto
Vice President and Chief
Financial Officer

EXHIBIT (10) (a)

2002 Share Performance Incentive Plan

2002 Share Performance Incentive Plan

1. Provided the conditions set forth in Section 2 or Section 4 below are met, a cash bonus shall be awarded to Barry W. Perry (the "Employee") on the terms and subject to the conditions set forth herein.

2. Except as otherwise set forth in Section 4 below, in order for a bonus award to be made to the Employee hereunder, the following conditions must be satisfied: (a) the average closing price per share of the Company's common stock on the New York Stock Exchange for the period from April 1, 2002 through December 31, 2002 (the "Award Period"), computed by averaging the closing price on each day on which the New York Stock Exchange was open for trading during the Award Period (the "Average Share Price"), must exceed \$32; (b) the Return on the Company's common stock for the Award Period must exceed the Return on the S&P All Chemicals Index (except as discussed below, as constituted for purposes of the Company's proxy statement) for the Award Period, and for all purposes of this Plan, (x) Return shall be computed based on share price without regard to dividends, (y) Return on the Company's common stock for the Award Period shall mean (Average Share Price during Award Period less closing price per share of the Company common stock on March 28, 2002) divided by the closing price per share of Company common stock on March 28, 2002, and (z) Return on the S&P All Chemicals Index for the Award Period shall mean the average, weighted on the basis of market capitalization on March 28, 2002, of the Return of each company constituting such index, where each such Return is (the average closing share price of the applicable company during the Award Period less the closing price per share of the applicable company on March 28, 2002) divided by the closing price per share of the applicable company on March 28, 2002; and (c) the Employee must be actively employed as the Chairman and Chief Executive Officer of the Company on January 7, 2003. If the composition of the S&P All Chemicals Index changes during the Award Period, the Return on the shares of the constituent companies shall be taken into account for the period during which they are included in the S&P All Chemicals Index with appropriate adjustments to the weighting of such Returns, all as determined reasonably and in good faith by the Company subject to the review of the Compensation Committee of the Company's Board of Directors.

3. If the conditions set forth in Section 2 above are met, the amount of the bonus award granted to the Employee shall be computed by first determining the excess of the Return on the Company's common stock for the Award Period over the Return on the S&P All Chemicals Index for the Award Period (the "Excess Total Return Percentage"). The amount of the bonus will then be determined by multiplying the number of shares of issued and outstanding Company common stock on March 28, 2002 by the opening price per share on such date and then multiplying that product by 0.0033 times the Excess Total Return Percentage

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(stated as a decimal).

4. Notwithstanding any provision hereof to the contrary, provided the average closing price per share of the Company's common stock for the last twenty trading days of calendar year 2002 exceeds \$31.75 per share, a bonus award shall be granted to the Employee under this Section 4 in an amount equal to \$750,000. For the avoidance of doubt, any bonus award in the amount of \$750,000 granted pursuant to this Section 4 shall not be in addition to any amount granted pursuant to Section 3 above, and it is intended that any award granted under this 2002 Share Performance Incentive Plan shall be the higher of the amount, if any, determined under either Section 3 or Section 4 hereof.

23

5. In the event of the first to occur of (i) a public announcement of an intention by an individual, entity or group (within the meaning of Section 13(d) or 14(d)(2) of the Securities Exchange Act of 1934) to engage in a transaction the consummation of which would result in a Change in Control (as defined in clauses (a), (c) or (d) of Section 5(b) of the Company's 1991 Stock Option Plan) or (ii) the occurrence of a Change in Control (as so defined), for purposes of determining the Average Share Price and the Excess Total Return Percentage and the amount of the bonus award, if any, the closing trading price and the fair market value of a share of Company common stock for the date of such public announcement or Change in Control, as the case may be, and each following day shall not exceed the closing trading price per share on the New York Stock Exchange on the trading day immediately preceding such public announcement or Change in Control, as the case may be. Such limitation on value of the Company common stock will continue for purposes hereof until such time as the Board of Directors determines, in good faith, that a Change in Control (as so defined) is unlikely to occur, and the fair market value of Company common stock for each day thereafter shall be the actual closing trading price on the New York Stock Exchange.

6. Any bonus award granted hereunder will be credited to an account for the Employee as of January 7, 2003, and it will be increased by an interest factor from the date of grant through the date of payment. The interest rate utilized to calculate such increase shall be set monthly and shall be equal to 120% of the long-term federal rate, compounded monthly (within the meaning of Section 1274(d) of the Internal Revenue Code of 1986, as amended) as in effect for the month for which interest is being computed. Any such award (together with interest on the award) will vest in three equal annual installments, beginning on the first anniversary of the date of grant. The award shall be payable as set forth in Sections 8 and 9 below.

7. Any unvested portion of an award (together with interest attributable to such unvested portion) will be forfeited immediately upon the termination of employment of the Employee, except that: (i) if such termination is by reason of disability or retirement at normal, deferred or early retirement age, under any retirement plan maintained by the Company or any of its subsidiaries, or for any other reason specifically approved in advance by the Compensation Committee of the Company's Board of Directors, any unvested portion of an award held by the Employee shall thereupon become vested in full; (ii) if such termination is by action of the Company or a subsidiary other than as provided in (i) above and other than discharge by reason of willful violation of the rules of the Company or instructions of superior(s), the unvested portion of any award shall continue to vest on its regular vesting schedule, notwithstanding such termination of employment; and (iii) in the event of the death of the Employee while employed, any unvested portion of any awards then held by the Employee shall thereupon

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become vested in full.

8. The amount of any bonus award granted hereunder which is (or becomes) vested at the time of termination of employment of the Employee (together with interest accrued thereon) shall be paid to the Employee as soon as practicable following such termination of employment; provided, however, that if the Employee's termination of employment is described in Section 7(ii) above, then the bonus award shall be paid on the date of vesting, if later; provided further, however, that the Employee may elect in writing at least one year prior to termination of his employment to receive payment of all amounts hereunder in up to ten annual installments, beginning upon termination of employment or the first anniversary of termination of employment, as so elected by the Employee (or, if later, the date of vesting). If amounts are payable hereunder in installments, the amount of each installment shall be determined by dividing the unpaid amount credited to the Employee under the Plan at such date (together with interest accrued thereon) by the number of installments remaining to be paid.

24

9. Upon the occurrence of a Change in Control (as defined in the Company's 1991 Stock Option Plan), the unvested portion of an award shall immediately become vested in full, and the entire amount payable hereunder (together with interest accrued thereon) shall be paid in cash to the Employee immediately upon the Change in Control. In the event of a Change in Control the Employee shall be entitled to an additional payment computed as set forth in the last paragraph of Section 6 of the Company's Deferred Compensation Plan for Key Employees.

10. In the event of a stock split, stock dividend, combination of shares, recapitalization, reorganization, merger, consolidation, rights offering, acquisition or divestiture by the Company, or any other change in the corporate structure or shares of the Company, the Board of Directors shall make such adjustments, if any, as it deems appropriate in the provisions hereof in order to equitably reflect such change.

11. This 2002 Share Performance Incentive Plan shall be an unfunded incentive compensation arrangement. Nothing contained herein, and no action taken pursuant hereto, shall create or be construed to create a trust of any kind. The Employee's right to receive payments hereunder shall not be transferable (other than by will or the laws of descent and distribution) and shall be no greater than the right of an unsecured general creditor of the Company. All amounts payable hereunder shall be paid from the general funds of the Company.

12. No award payable hereunder shall be deemed salary or compensation for the purpose of computing benefits under any benefit plan or other arrangement of the Company or its subsidiaries for the benefit of its employees unless the Company shall determine otherwise; provided, however, any award payable hereunder shall be taken into account in computing benefits payable under Section 3 of the Company's Change in Control Agreements.

13. This 2002 Share Performance Incentive Plan shall be interpreted, construed and administered in accordance with the laws of the state of New Jersey, without giving effect to principles of conflict of laws thereof.

14. The Company shall deduct from any amount payable hereunder the amount of any taxes required to be withheld by any governmental authority.

25

EXHIBIT 12

COMPUTATION OF THE RATIO OF EARNINGS TO FIXED CHARGES

26

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

	Six Months Ended June 30,	Years Ended Decem		
	----- 2002 ----	2001 ----	2000 ----	1999 ----
Earnings from continuing operations before provision for income taxes	\$149,922	\$305,224	\$245,687	\$284,118
Add/ (deduct)				
Portion of rents representative of the interest factor	4,200	8,400	8,800	7,000
Interest on indebtedness	13,788	43,994	62,649	56,555
Equity dividends	3,753	4,158	4,363	2,431
Equity in (earnings) losses of affiliates	(8,070)	(29,095)	(24,187)	(16,266)
	-----	-----	-----	-----
Earnings, as adjusted	\$163,593 =====	\$332,681 =====	\$297,312 =====	\$333,838 =====
Fixed Charges				

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Portion of rents representative of the interest factor	\$ 4,200	\$ 8,400	\$ 8,800	\$ 7,000
Interest on indebtedness	13,788	43,994	62,649	56,555
Capitalized interest	1,500	3,000	3,880	2,580
	-----	-----	-----	-----
Fixed charges	\$19,488	\$55,394	\$75,329	\$ 66,135
	=====	=====	=====	=====
Ratio of Earnings to Fixed Charges	8.39 (a)	6.01	3.95 (b)	5.05
	=====	=====	=====	=====

- (a) Earnings in 2002 were impacted by an insurance settlement of \$11.0 million, an investment in a manufacturing consolidation charge of \$3.1 million. Excluding these items, the ratio of earnings to fixed charges would have been 8.33.
- (b) Earnings in 2000 were negatively impacted by pre-tax special and other charges of \$134.2 million due to a variety of events. Excluding these charges, the ratio of earnings to fixed charges would have been 6.01.
- (c) Earnings in 1997 were negatively impacted by pre-tax special and other charges of \$149.6 million due to a variety of events. Excluding these charges, the ratio of earnings to fixed charges would have been 5.28.

27

Certification Accompanying Periodic Report Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350)

The undersigned, Barry W. Perry, Chairman and Chief Executive Officer of Engelhard Corporation (the "Company"), and Michael A. Sperduto, Vice President and Chief Financial Officer of the Company, each hereby certifies that the Quarterly Report of the Company on Form 10-Q for the period ended June 30, 2002 (the "Report") (1) fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 and (2) the information contained in the Report fairly presents, in all material respects, the financial condition and the results of operations of the Company.

Date: August 13, 2002

/s/ Barry W. Perry

Barry W. Perry
Chairman and Chief
Executive Officer

Date: August 13, 2002

/s/ Michael A. Sperduto

Michael A. Sperduto
Vice President and
Chief Financial Officer