

# SECURITIES AND EXCHANGE COMMISSION

## FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1996-11-14** | Period of Report: **1996-09-30**  
SEC Accession No. **0000352947-96-000011**

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### FILER

#### ENGELHARD CORP

CIK: **352947** | IRS No.: **221586002** | State of Incorporation: **DE** | Fiscal Year End: **1231**  
Type: **10-Q** | Act: **34** | File No.: **001-08142** | Film No.: **96664804**  
SIC: **3330** Primary smelting & refining of nonferrous metals

Mailing Address  
101 WOOD AVENUE  
ISELIN NJ 08830

Business Address  
101 WOOD AVENUE  
ISELIN NJ 08830  
9082055000

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 1996

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 name 1-8142

ENGELHARD CORPORATION

(Exact name of Registrant as specified in its charter)

DELAWARE

22-1586002

(State or other jurisdiction of  
incorporation or organization)

(IRS Employer Identification  
Number)

101 WOOD AVENUE, ISELIN, NEW JERSEY

08830

(Address of principal executive offices)

(Zip Code)

(908) 205-5000

(Registrant's telephone number including area code)

Not Applicable

(Former name, former address and former fiscal year,  
if change 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 and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

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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, 1996
----- \$1 par value	----- 143,851,369

PART I - FINANCIAL INFORMATION

Item 1 - Financial Statements

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

Three Months Ended      Nine Months Ended  
September 30,              September 30,

	1996	1995	1996	1995
Net sales .....	\$800,894	\$724,588	\$2,359,497	\$2,140,187
Cost of sales .....	676,810	614,120	1,997,515	1,791,934
Gross profit .....	124,084	110,468	361,982	348,253
Selling, administrative and other expenses .....	61,556	52,731	177,708	187,005
Earnings from operations .....	62,528	57,737	184,274	161,248
Equity in losses of affiliates .....	(607)	(1,865)	(2,080)	(1,525)
Net interest expense .....	13,009	6,998	31,732	22,723
Earnings before income taxes .....	48,912	48,874	150,462	137,000
Income tax expense .....	13,940	11,861	42,882	35,655
Net earnings .....	\$34,972	\$37,013	\$107,580	\$101,345
Net earnings per share .....	\$0.24	\$0.26	\$0.75	\$0.71
Cash dividends paid per share .....	\$0.09	\$0.09	\$0.27	\$0.26
Average number of shares outstanding .....	143,869	144,031	143,796	143,498

See the Accompanying Notes to the Condensed Consolidated Financial Statements

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

	September 30, 1996	December 31, 1995
Cash .....	\$ 60,744	\$ 40,023
Receivables .....	365,159	268,578
Inventories .....	325,805	238,002
Other current assets .....	53,482	54,440
Total current assets .....	\$ 805,190	601,043
Investments .....	231,013	224,721
Property, plant and equipment, net .....	710,140	609,540
Other noncurrent assets .....	368,190	210,271
Total assets .....	\$2,114,533	\$1,645,575

Short-term borrowings .....	\$ 376,064	\$ 183,570
Accounts payable .....	130,748	101,064
Other current liabilities .....	222,065	209,875
	-----	-----
Total current liabilities .....	728,877	494,509
Long-term debt .....	375,241	211,533
Other noncurrent liabilities .....	205,524	201,791
Shareholders' equity .....	804,891	737,742
	-----	-----
Total liabilities and shareholders' equity .....	\$2,114,533	\$1,645,575
	=====	=====

See the Accompanying Notes to the Condensed Consolidated Financial Statements

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

	Nine Months Ended September 30,	
	1996	1995
	----	----
Cash flows from operating activities		
Net earnings .....	\$ 107,580	\$ 101,345
Adjustments to reconcile net earnings to net cash provided by operating activities		
Depreciation, depletion and amortization .....	54,898	46,473
Equity results, net of dividends .....	4,595	4,936
Change in assets and liabilities .....	(93,334)	(45,294)
	-----	-----
Net cash provided by operating activities .....	73,739	107,460
	-----	-----
Cash flows from investing activities		
Capital expenditures, net .....	(95,466)	(65,736)
Proceeds from sale of business .....	500	0
Acquisitions and investments, net of cash acquired....	(269,516)	(27,370)
Other .....	3,736	(6,515)
	-----	-----
Net cash used in investing activities .....	(360,746)	(99,621)
	-----	-----
Cash flows from financing activities		
Net change in short-term borrowings .....	192,572	(81,879)
Proceeds from long-term debt .....	249,726	99,975
Repayment of long-term debt .....	(100,225)	(44)
Purchase of treasury stock .....	(7,357)	0
Stock bonus and option plan transactions .....	12,346	27,444
Dividends paid .....	(38,828)	(37,361)
	-----	-----
Net cash provided by financing activities .....	308,234	8,135
	-----	-----
Effect of exchange rate changes on cash .....	(506)	2,597
	-----	-----
Net change in cash .....	20,721	18,571
Cash at beginning of year .....	40,023	26,404
	-----	-----

Cash at end of period .....\$ 60,744 \$ 44,975  
=====

See the Accompanying Notes to the Condensed Consolidated Financial Statements

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ENGELHARD CORPORATION  
SEGMENT INFORMATION  
(Thousands)  
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	1996	1995	1996	1995
	----	----	----	----
Net Sales				
Catalysts and Chemicals .....	\$211,168	\$170,534	\$ 627,962	\$ 529,807
Pigments and Additives .....	147,660	108,539	365,278	314,902
Engineered Materials and Industrial Commodities Management .....	442,066	445,515	1,366,257	1,295,478
	-----	-----	-----	-----
	\$800,894	\$724,588	\$2,359,497	\$2,140,187
	=====	=====	=====	=====
Operating Earnings				
Catalysts and Chemicals .....	\$ 28,033	\$ 25,009	\$ 94,379	\$ 77,019
Pigments and Additives .....	29,697	27,572	70,032	68,904
Engineered Materials and Industrial Commodities Management .....	9,417	10,182	34,432	35,566
	-----	-----	-----	-----
	67,147	62,763	198,843	181,489
Equity in losses of affiliates ....	(607)	(1,865)	(2,080)	(1,525)
Interest and other expenses, net ..	(17,628)	(12,024)	(46,301)	(42,964)
	-----	-----	-----	-----
Earnings before income taxes...	\$ 48,912	\$ 48,874	\$ 150,462	\$ 137,000
	=====	=====	=====	=====

See the Accompanying Notes to the Condensed Consolidated Financial Statements

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1. 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. These financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's 1995 Annual Report to Shareholders.
2. Some of the Company's businesses use industrial commodities in their operations. In addition, sales and purchases of these and other industrial commodities to/from customers are transacted through the Company's dealing operations. Secondly, and usually as a consequence of the above transactions, the Company also engages in industrial commodities dealing with other counterparties. Generally, all of these industrial commodity transactions are hedged on a daily basis, using spot, forward, futures or option transactions, to substantially eliminate the exposure to price risk. In limited and closely monitored situations, for which preapproved exposure levels have been set, the Company holds significant unhedged industrial commodity positions. Changes in the market value of unhedged (open) industrial commodity positions are recognized in earnings in the period of the change by marking these positions to their current market value.

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

Results of Operations

Comparison of the Third Quarter of 1996  
With the Third Quarter of 1995

Earnings before income taxes for the third quarter of 1996 were \$48.9 million, about the same as 1995. The 1996 results included a positive impact of about 10% from the Mearl Corporation ("Mearl", see "Mearl Acquisition") and the benefit from an improved transportation cost management system; both of these items (excluding the interest cost related to Mearl) are reflected in the Pigments and Additives segment.

Operating earnings for the third quarter of 1996 increased 7% as the Catalysts and Chemicals segment and the Pigments and Additives segment reported higher results which more than offset unfavorable results in the Engineered Materials and the Industrial Commodities Management segment.

The Company's share of losses from affiliates was \$.6 million for the third quarter of 1996 compared with a loss of \$1.9 million in 1995. The improvement reflected a much smaller loss in Engelhard-CLAL, a precious metal fabrication joint venture, due to the benefits from a reorganization which is currently underway. Partially offsetting this favorable result were a start-up loss at Colortronics, a conductive ink joint venture and less favorable results at N.E. Chemcat, a Japanese affiliate.

Higher net interest expense was primarily due to the acquisition of Mearl.

Net earnings for the third quarter of 1996 were \$35.0 million compared with \$37.0 million in 1995. The effective tax rate in 1996 was 28.5% compared with 24.3% for the same quarter last year, due to a changing geographic mix of earnings.

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Net sales for the third quarter of 1996 increased 11% to \$800.9 million from \$724.6 million in the same quarter of 1995 with higher sales in the Catalysts and Chemicals segment and the Pigments and Additives segment more than offsetting slightly lower sales in the Engineered Materials and Industrial Commodities Management segment. The acquisition of Mearl is estimated to account for about half of this increase in net sales, see "Pigments and Additives", and basically all of the increase in selling, administrative and other expenses.

Catalysts and Chemicals

Operating earnings increased 12% to \$28.0 million in the third quarter of 1996 from \$25.0 million in 1995 while net sales were up 24% to \$211.2 million in 1996 from \$170.5 million in 1995.

The Environmental Technologies Group had higher earnings largely due to increased volumes and improved mix in the United States, particularly auto-emission systems and heavy duty power systems, and increased market share and volume in Europe. In the Petroleum Catalysts Group, earnings declined primarily due to fluid catalytic cracking ("FCC") catalysts where cost and pricing impacts more than offset higher volumes. The Chemical Catalysts Group had strong business results which were more than offset by higher operating expenses.

#### Pigments and Additives -----

Operating earnings increased 8% to \$29.7 million in the third quarter of 1996 from \$27.6 million in 1995. Net sales increased 36% to \$147.7 million in 1996 from \$108.5 million in 1995. Excluding the estimated positive impact of Mearl and the benefit from an improved transportation cost management system, operating earnings would have declined approximately 30% on flat sales.

Lower earnings in the Paper Pigments and Chemicals Group reflected lower volumes as a result of the continuing weakness in the paper industry. Reduced earnings in the Specialty Minerals and Colors Group (excluding Mearl) were primarily due to product mix.

#### Engineered Materials and Industrial Commodities Management -----

Operating earnings decreased 8% to \$9.4 million in the third quarter of 1996 from \$10.2 million in 1995 and net sales declined slightly to \$442.1 million in 1996 from \$445.5 million in 1995.

The Engineered Materials Group had lower earnings due to a decrease in the demand for fabricated, precious-metal products. The lower earnings more than offset the favorable results of the Industrial Commodities Management Group.

#### Comparison of the First Nine Months of 1996 With the First Nine Months of 1995 -----

Earnings before income taxes for the first nine months of 1996 were \$150.5 million compared with \$137.0 million in 1995. The 1996 results included a small positive impact from Mearl and the benefit from an improved transportation cost management system; both of these items (excluding the interest cost related to Mearl) are reflected in the Pigments and Additives segment.

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Operating earnings for the first nine months of 1996 increased 10% as the Catalysts and Chemicals segment and the Pigments and Additives segment reported higher results which more than offset unfavorable results in the Engineered Materials and Industrial Commodities Management segment. Operating earnings of the Company exclude the former Engineered Materials businesses placed in the Engelhard-CLAL joint venture on June 22, 1995. The results of Engelhard-CLAL are reported in equity in losses of affiliates.

The Company's share of losses from affiliates was \$2.1 million for the first nine months of 1996 compared with a loss of \$1.5 million in 1995. The increase reflected a larger loss at Engelhard/ICC, a desiccant air conditioning joint venture; a start-up loss at Engelhard Colortronics, a conductive ink joint venture; and less favorable results at N.E. Chemcat, a Japanese affiliate. Partially offsetting these unfavorable results was a much smaller loss from Engelhard-CLAL, a precious metal fabrication joint venture, due to the benefits from a reorganization which is currently underway.

Higher net interest expense was primarily due to the acquisition of Mearl and the purchase of the Company's office building in December 1995. (The purchase of the building resulted in reduced lease expenses.)

Net earnings for the first nine months of 1996 were \$107.6 million compared with \$101.3 million in 1995. The effective tax rate in 1996 was 28.5% compared with 26.0% for the same period last year, due to a changing geographic mix of earnings.

Net sales for the first nine months of 1996 increased 10% to \$2.4 billion from \$2.1 billion for the same period in 1995 with higher sales in all segments. The acquisition of Mearl is estimated to account for a small portion of this increase in net sales (see "Pigments and Additives"), and offset a part of the decrease in selling, administrative and other expenses caused by the absence of

the Engineered Materials businesses placed in the Engelhard-CLAL joint venture.

Catalysts and Chemicals  
-----

Operating earnings increased 23% to \$94.4 million in the first nine months of 1996 from \$77.0 million in 1995 while net sales were up 19% to \$628.0 million in 1996 from \$529.8 million in 1995.

The Environmental Technologies Group had higher earnings largely due to increased volumes and improved mix in the United States, particularly auto-emission systems and heavy duty power systems, and increased market share and volume in Europe. In the Petroleum Catalysts Group, earnings declined slightly in spite of higher volumes of FCC catalysts as a result of unfavorable FCC pricing and higher manufacturing costs. The Chemical Catalysts Group had improved earnings due to higher worldwide petrochemical catalyst volumes.

Pigments and Additives  
-----

Operating earnings increased 2% to \$70.0 million in the first nine months of 1996 from \$68.9 million in 1995. Net sales increased 16% to \$365.3 million in 1996 from \$314.9 million in 1995. Excluding the estimated positive impact of Mearl and the benefit from an improved transportation cost management system, the segment would have reported a reduction of approximately 15% in operating earnings on flat sales.

Lower earnings in the Paper Pigments and Chemicals Group reflected continuing weakness in the paper industry. Reduced earnings in the Specialty Minerals and Colors Group (excluding Mearl) were primarily due to product mix.

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Engineered Materials and Industrial Commodities Management  
-----

Operating earnings decreased 3% to \$34.4 million in the first nine months of 1996 from \$35.6 million in 1995 and net sales increased 5% to \$1.4 billion in 1996 from \$1.3 billion in 1995.

The Engineered Materials Group had lower earnings primarily due to the transfer of former business units into the Engelhard-CLAL joint venture. The lower earnings more than offset the favorable results of the Industrial Commodities Management Group.

Mearl Acquisition  
-----

On May 31, 1996, the Company acquired Mearl. For a more complete description of the acquisition, see the Company's Form 8-K/A, filed with the Securities and Exchange Commission ("SEC") on July 12, 1996.

The integration of Mearl is expected to result in substantial cost savings through the elimination of duplicate functions and facilities. Management expects to substantially complete these actions by the middle of 1997. These actions are expected to increase goodwill by approximately \$6.0 million.

Financial Condition and Liquidity  
-----

During the third quarter of 1996, the Company called \$100.0 million of 10% notes and subsequently issued \$250.0 million of long-term debt (primarily to finance the acquisition of Mearl) consisting of \$150.0 million of five year notes and \$100.0 million of ten year notes bearing interest at rates of 7.0% and 7.375%, respectively. As a result, the Company's current ratio declined to 1.1 from 1.2 and the total debt to total capital ratio increased to 48% compared with 35% as of December 31, 1995. Management believes that the Company will continue to have adequate access to credit and capital markets to meet its needs for the foreseeable future.

PART II - OTHER INFORMATION  
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Item 6.	Exhibits and Reports on Form 8-K	Page
(a)	(12) Computation of the Ratio of Earnings to Fixed Charges.	11



(b) In a report on Form 8-K/A filed with the SEC on July 12, 1996, the Company amended the Form 8-K filed with the SEC on June 7, 1996 to include the financial statements required under Items 7(a) and 7(b).

\*

\* Incorporated by reference as indicated.

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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 14, 1996  
-----

/s/ Orin R. Smith  
-----

Orin R. Smith  
Chairman and Chief  
Executive Officer

Date      November 14, 1996  
-----

/s/ William E. Nettles  
-----

William E. Nettles  
Vice President and  
Chief Financial Officer

Date      November 14, 1996  
-----

/s/ Martin J. Connor, Jr.  
-----

Martin J. Connor, Jr.  
Controller

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

&lt;TABLE&gt;

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	Nine Months Ended September 30	Year Ended December 31				
	1996 -----	1995 -----	1994 -----	1993 -----	1992 -----	1991 -----
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Income from continuing operations before provision for income taxes .....	\$150,462	\$185,312	\$157,306	(\$4,709)	\$133,858	\$117,569
Add / (deduct)						
Portion of rents representative of the interest factor .....	750	4,700	4,800	4,500	4,000	4,200
Interest on indebtedness .....	31,732	31,326	21,954	13,696	16,231	21,658
Equity dividends .....	2,515	3,411	3,800	2,600	3,100	3,200
Equity (earnings)/ loss .....	2,080	(695)	(632)	(3,443)	(7,445)	(5,024)
	-----	-----	-----	-----	-----	-----
Earnings as adjusted .....	\$187,539	\$224,054	\$187,228	\$12,644	\$149,744	\$141,603
	=====	=====	=====	=====	=====	=====
Fixed Charges						
Portion of rents representative of interest factor .....	\$750	\$4,700	\$4,800	\$4,500	\$4,000	\$4,200
Interest on indebtedness .....	31,732	31,326	21,954	13,696	16,231	21,658
Capitalized Interest .....	891	1,000	800	2,700	400	110
	-----	-----	-----	-----	-----	-----
	\$33,373	\$37,026	\$27,554	\$20,896	\$20,631	\$25,968
	=====	=====	=====	=====	=====	=====
Ratio of Earnings to Fixed Charges .....	5.62	6.05	6.79	- (A)	7.26	5.45

(A) For fiscal 1993, earnings were insufficient to cover fixed charges by approximately \$8.3 million. Earnings in 1993 were negatively impacted by a charge of approximately \$148 million for the realignment and consolidation of businesses and environmental matters. Without such charge the ratio of earnings to fixed charges for fiscal 1993 would have been 7.14.

&lt;/TABLE&gt;

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