

ENGELHARD CORP
Form 8-K
February 02, 2006

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

FORM 8-K

CURRENT REPORT

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

Date of Report (Date of earliest event reported): February 2, 2006

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

| | | |
|---|------------------------------------|---|
| Delaware (State or other jurisdiction of incorporation) | 1-8142 (Commission File Number) | 22-1586002 (I.R.S. Employer Identification No.) |
| 101 Wood Avenue, Iselin, New Jersey (Address of principal executive offices) | | 08830 (Zip Code) |

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

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 2.02 Results of Operations and Financial Condition.

On February 2, 2006 Engelhard Corporation (the "Company") issued a press release announcing its earnings for its fourth quarter of fiscal year 2005. A copy of the release is furnished herewith as Exhibit 99.1.

The information furnished under this Item 2.02, including Exhibit 99.1, shall not be deemed to be filed for the purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and will not be incorporated by reference into any registration statement filed under the Securities Act of 1933, as amended, unless specifically identified therein as being incorporated therein by reference.

SIGNATURES

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

ENGELHARD
CORPORATION
(Registrant)

Date: February 2, 2006

/s/ Michael A. Sperduto
Michael A. Sperduto
Vice President and
Chief Financial Officer

EXHIBIT INDEX

| Exhibit No. | Description |
|-------------|--|
| 99.1 | Press Release, dated February 2, 2006 relating to Engelhard Corporation's earnings release for the fourth quarter of 2005. |

News

Contact

Ted Lowen
(Media)
732-205-6360

Gavin A. Bell
(Investor Relations)
732-205-6313
Ref. #C1433

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

For immediate release

**ENGELHARD REPORTS 15% INCREASE IN FOURTH-QUARTER
EARNINGS PER SHARE FROM CONTINUING OPERATIONS**

ISELIN, NJ, February 2, 2006 - Engelhard Corporation (NYSE: EC) today reported income from continuing operations for the fourth quarter ended December 31 of \$65 million, or 54 cents per share, compared with \$58 million, or 47 cents per share, for the same period in 2004. Fourth-quarter 2005 results included a benefit of three cents per share related to tax items, while the prior-year quarter included a benefit of five cents per share resulting from the liquidation of the former Engelhard-CLAL joint venture's assets.

Net sales grew 26% to \$1.3 billion in the fourth quarter of 2005, up from \$1.0 billion in the prior-year period.

Full-year 2005 income from continuing operations was \$246 million, or \$2.02 per share, compared with \$237 million, or \$1.89 per share in 2004, which included three cents per share of net-positive special items. Sales for the full year 2005 were \$4.6 billion compared with \$4.1 billion in 2004.

"The significant investments we made in recent years in both organic growth initiatives and strategic acquisitions are just beginning to pay off," said Barry W. Perry, chairman

and chief executive officer. "Our fourth-quarter results are consistent with our business plans and reflect that our actions have positioned Engelhard to generate strong earnings growth over the next several years."

Fourth-Quarter Operating Results

Operating earnings from Environmental Technologies were \$33 million, while net sales rose 25% to \$270 million. Higher revenues were driven primarily by strength in the European light-duty diesel market.

"Engelhard is uniquely positioned to capitalize on the significant increase in demand projected for sophisticated emission-control technologies as more stringent regulatory guidelines covering light-, medium-, and heavy-duty emissions begin to take effect in major industrial markets around the globe," Mr. Perry said. "Beginning in 2007, the introduction of stricter clean air regulations in Europe, the U.S. and Asia, including China, is expected to fuel Environmental Technologies' annual earnings growth in the low-teens through 2010."

Operating earnings from Process Technologies increased 19% to \$32 million as a result of continued strong demand for technologies for petroleum refining and chemical- process markets. Sales rose 13% to \$200 million.

"Strong technology leadership positions in petroleum refining and chemical- process markets give us confidence that we can achieve our business plan target of mid-teens annual earnings growth through 2010 in this segment," Mr. Perry stated.

Operating earnings from Appearance and Performance Technologies fell 3% to \$10 million, primarily resulting from the impact of a severe hurricane season and the continuing negative impact of higher natural gas prices, which was an incremental cost of \$6 million versus the prior-year period. Fourth-quarter 2004 results included a charge of \$6.6 million resulting from the decision to consolidate certain manufacturing operations to improve efficiencies at the company's Middle Georgia Operations, which manufacture kaolin-based products. Sales rose 7% to \$177 million in the fourth quarter of 2005.

"The full impact of our price increases and surcharges to mitigate the impact of high natural gas prices will begin to benefit results in the first quarter of 2006," said Mr. Perry. "We expect price recovery, stronger sales of kaolin-based technologies for non-paper applications and continued strength in cosmetics and personal care to drive double-digit annual earnings growth through 2010."

Operating earnings from Materials Services were \$12 million, an increase of about \$8 million versus a year ago. Sales were \$595 million, compared with \$441 million in last year's fourth quarter.

“We expect Materials Services to drive shareholder value both as an enabler for catalyst sales and as a source of cash with high returns on invested capital,” said Mr. Perry.

Earnings from equity investments were \$8 million in the fourth quarter. Equity earnings from the company’s equity-method joint ventures, which primarily serve the Japanese and Korean automotive catalyst markets, delivered a 25% compound annual growth rate over the past three years.

Performance Outlook

“Our business plan calls for double-digit earnings growth from our technology segments, strong free cash flow generation and a 13% return on average capital in 2006,” Mr. Perry said. “We expect balanced performance across our technology segments and ongoing pricing and productivity initiatives to provide a strong underlying financial base over our five-year business plan period. In the 2006-2010 timeframe, the business plan calls for earnings per share growth of approximately 16.5%, revenue growth of 8% per year, over 300 basis points of operating margin improvement, cumulative free cash flow of well more than \$500 million and returns on average capital of 14-15%.” Engelhard Corporation is a surface and materials science company that develops technologies to improve customers’ products and processes. A *Fortune 500* company, Engelhard is a world-leading provider of technologies for environmental, process, appearance and performance applications. For more information, visit Engelhard on the Internet at www.engelhard.com.

Forward-looking statements: This document contains forward-looking statements in management’s comments. There are a number of factors that could cause Engelhard’s actual results to vary materially from those projected in the forward-looking statements. For a more thorough discussion of these factors and the key assumptions underlying these forward-looking statements, please refer to "Forward-Looking Statements" (excluding the first and last sentence thereof) on page 30 of Engelhard's 2004 Form 10-K, dated March 11, 2005, and Exhibit (a)(11) to Amendment No. 2 to the Company's Schedule 14D-9 (Investor Presentation entitled "Engelhard Response to BASF Offer") (excluding the last paragraph of page 33 thereof), filed on February 2, 2006.

Additional Information and Where To Find It

This announcement does not constitute an offer or invitation to purchase nor a solicitation of an offer to sell any securities of Engelhard. In connection with the proposed transaction, BASF filed a Tender Offer Statement on Schedule TO on January 9, 2006, which has been amended (the “Tender Offer Statement”). Engelhard has filed certain materials with the SEC, including a Solicitation/Recommendation Statement on Schedule 14D-9, which has been amended (the “Schedule 14D-9”). Engelhard plans to file with the SEC and mail to its shareholders a Proxy Statement on Form 14A relating to the 2006 annual meeting of shareholders and the election of directors (the “2006 Proxy Statement”). Information regarding the names of Engelhard’s directors and executive officers and their respective interests in Engelhard by security holdings or otherwise is set forth in Engelhard’s Proxy Statement relating to the 2005 annual meeting of shareholders (“2005 Proxy Statement”). Additional information regarding the interests of such potential participants will be included in the 2006 Proxy Statement and other relevant documents to be filed with the SEC in connection with Engelhard’s 2006 annual meeting of stockholders that will be filed with the SEC.

INVESTORS AND SECURITY HOLDERS ARE ADVISED TO READ THESE MATERIALS BECAUSE THEY WILL CONTAIN IMPORTANT INFORMATION. Investors and

security holders may obtain a free copy of the Tender Offer Statement, Schedule 14D-9, 2005 Proxy Statement, 2006 Proxy Statement (when it is filed and becomes available) and other documents filed by Engelhard or BASF with the SEC at the SEC's website at <http://www.sec.gov>. In addition, investors and security holders may obtain a free copy of each of the Schedule 14D-9, 2005 Proxy Statement and 2006 Proxy Statement (when it is filed and becomes available), as well as Engelhard's related filings with the SEC, from Engelhard by directing a request to Engelhard Corporation, 101 Wood Avenue, Iselin, New Jersey 08830, Attention: Investor Relations or 732-205-5000. Copies of Engelhard's letter to stockholders and Schedule 14D-9 may also be obtained from MacKenzie Partners, Inc. by calling 1-800-322-2885 toll free or at 1-212-929-5500 collect or by email at Engelhard@mackenziepartners.com.

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

| | Three Months Ended December 31, | | Twelve Months Ended December 31, | |
|--|------------------------------------|--------------|-------------------------------------|--------------|
| | 2005 | 2004 | 2005 | 2004 |
| Net sales | \$ 1,271,834 | \$ 1,010,260 | \$ 4,597,016 | \$ 4,136,109 |
| Cost of sales | 1,082,569 | 838,442 | 3,879,014 | 3,465,509 |
| Gross profit | 189,265 | 171,818 | 718,002 | 670,600 |
| Selling, administrative and other expenses | 111,659 | 103,891 | 419,397 | 389,095 |
| Special charge | - | 5,304 | - | 5,304 |
| Operating earnings | 77,606 | 62,623 | 298,605 | 276,201 |
| Equity in earnings of affiliates | 8,327 | 18,192 | 32,564 | 37,582 |
| Loss on investments | (406) | (664) | (239) | (663) |
| Interest expense, net | (6,758) | (5,077) | (25,504) | (18,499) |
| Earnings before income taxes | 78,769 | 75,074 | 305,426 | 294,621 |
| Income tax expense | 13,684 | 16,705 | 59,078 | 57,405 |
| Income from continuing operations | 65,085 | 58,369 | 246,348 | 237,216 |
| Loss from discontinued operations, net of taxes | (1,201) | (233) | (8,106) | (1,688) |
| Net Income | \$ 63,884 | \$ 58,136 | \$ 238,242 | \$ 235,528 |
| Earnings per share from continuing operations: | | | | |
| Basic | \$ 0.54 | \$ 0.48 | \$ 2.05 | \$ 1.93 |
| Diluted | \$ 0.54 | \$ 0.47 | \$ 2.02 | \$ 1.89 |
| Earnings per share from discontinued operations: | | | | |
| Basic | \$ (0.01) | \$ - | \$ (0.07) | \$ (0.01) |
| Diluted | \$ (0.01) | \$ - | \$ (0.07) | \$ (0.01) |
| Earnings per share: | | | | |
| Basic | \$ 0.53 | \$ 0.48 | \$ 1.98 | \$ 1.91 |
| Diluted | \$ 0.53 | \$ 0.47 | \$ 1.95 | \$ 1.88 |
| Cash dividends paid per share | \$ 0.12 | \$ 0.11 | \$ 0.48 | \$ 0.44 |
| Average number of shares outstanding - basic | 119,692 | 121,877 | 120,291 | 123,155 |
| Average number of shares outstanding - diluted | 121,570 | 124,059 | 122,215 | 125,350 |
| Actual number of shares outstanding at end of period | 120,640 | 122,413 | 120,640 | 122,413 |

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

| Pro forma information (in thousands, except per-share data) | Three Months Ended December 31, | | Twelve Months Ended December 31, | |
|--|------------------------------------|-----------|-------------------------------------|------------|
| | 2005 | 2004 | 2005 | 2004 |
| Net earnings - as reported | \$ 63,884 | \$ 58,136 | \$ 238,242 | \$ 235,528 |
| Net earnings - pro forma | 60,910 | 55,132 | 231,383 | 228,091 |
| Diluted earnings per share - as reported | 0.53 | 0.47 | 1.95 | 1.88 |
| Diluted earnings per share - pro forma | 0.50 | 0.44 | 1.89 | 1.82 |

ENGELHARD CORPORATION
BUSINESS SEGMENT INFORMATION
(Thousands)
(Unaudited)

| | Three Months Ended | | | Twelve Months Ended | | |
|---|--------------------|--------------|--------|---------------------|--------------|--------|
| | December 31, | | | December 31, | | |
| | 2005 | 2004 | Change | 2005 | 2004 | Change |
| Net Sales | | | | | | |
| Environmental Technologies | \$ 270,312 | \$ 215,436 | 25% | \$ 1,008,727 | \$ 883,337 | 14% |
| Process Technologies | 199,580 | 175,978 | 13% | 687,132 | 615,187 | 12% |
| Appearance and Performance Technologies | 177,384 | 166,481 | 7% | 726,076 | 690,200 | 5% |
| Technology segments | 647,276 | 557,895 | 16% | 2,421,935 | 2,188,724 | 11% |
| Materials Services | 594,747 | 441,386 | 35% | 2,096,275 | 1,895,014 | 11% |
| All Other | 29,811 | 10,979 | 172% | 78,806 | 52,371 | 50% |
| Total net sales | \$ 1,271,834 | \$ 1,010,260 | 26% | \$ 4,597,016 | \$ 4,136,109 | 11% |
| Operating Earnings | | | | | | |
| Environmental Technologies | \$ 32,564 | \$ 34,018 | -4% | \$ 140,891 | \$ 138,274 | 2% |
| Process Technologies | 32,357 | 27,233 | 19% | 97,991 | 87,318 | 12% |
| Appearance and Performance Technologies | 10,071 | 10,399 | -3% | 65,570 | 68,520 | -4% |
| Technology segments | 74,992 | 71,650 | 5% | 304,452 | 294,112 | 4% |
| Materials Services | 11,727 | 3,419 | 243% | 28,433 | 16,779 | 69% |
| All Other | (9,113) | (12,446) | -27% | (34,280) | (34,690) | -1% |
| Total operating earnings | 77,606 | 62,623 | 24% | 298,605 | 276,201 | 8% |
| Equity in earnings of affiliates | 8,327 | 18,192 | -54% | 32,564 | 37,582 | -13% |
| Loss on investment | (406) | (664) | -39% | (239) | (663) | -64% |
| Interest expense, net | (6,758) | (5,077) | 33% | (25,504) | (18,499) | 38% |
| Earnings before income taxes | 78,769 | 75,074 | 5% | 305,426 | 294,621 | 4% |
| Income tax expense | 13,684 | 16,705 | -18% | 59,078 | 57,405 | 3% |
| Income from continuing operations | 65,085 | 58,369 | 12% | 246,348 | 237,216 | 4% |
| Loss from discontinued operations, net of taxes | (1,201) | (233) | 415% | (8,106) | (1,688) | 380% |
| Net Income | \$ 63,884 | \$ 58,136 | 10% | \$ 238,242 | \$ 235,528 | 1% |

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

| | December 31, 2005 | December 31, 2004 |
|--|------------------------------------|------------------------------------|
| Cash | \$ 41,619 | \$ 126,229 |
| Receivables, net | 526,962 | 406,962 |
| Committed metal positions | 904,953 | 457,498 |
| Inventories | 532,638 | 458,020 |
| Other current assets | 145,392 | 140,740 |
| Total current assets | 2,151,564 | 1,589,449 |
| Investments | 204,495 | 179,160 |
| Property, plant and equipment, net | 936,193 | 902,751 |
| Goodwill | 400,719 | 330,798 |
| Other intangible and noncurrent assets | 186,007 | 176,434 |
| Total assets | \$ 3,878,978 | \$ 3,178,592 |
| Short-term borrowings | \$ 48,784 | \$ 11,952 |
| Current maturities of long-term debt | 120,852 | 73 |
| Accounts payable | 561,955 | 375,343 |
| Hedged metal obligations | 640,812 | 292,880 |
| Other current liabilities | 265,359 | 249,419 |
| Total current liabilities | 1,637,762 | 929,667 |
| Long-term debt | 430,500 | 513,680 |
| Other noncurrent liabilities | 321,554 | 320,932 |
| Shareholders' equity | 1,489,162 | 1,414,313 |
| Total liabilities and shareholders' equity | \$ 3,878,978 | \$ 3,178,592 |

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

| | Twelve Months Ended | |
|---|----------------------------|-------------|
| | December 31, | |
| | 2005 | 2004 |
| Cash flows from operating activities | | |
| Net earnings | \$ 238,242 | \$ 235,528 |
| Adjustments to reconcile net earnings to net cash provided by operating activities: | | |
| Depreciation and depletion | 126,933 | 124,951 |
| Amortization of intangible assets | 5,463 | 3,736 |
| Equity results, net of dividends | (17,167) | (16,038) |
| Net change in assets and liabilities: | | |
| Materials Services related | 6,152 | (31,566) |
| All other | (101,529) | 6,771 |
| Net cash provided by operating activities | 258,094 | 323,382 |
| Cash flows from investing activities | | |
| Capital expenditures | (141,616) | (123,168) |
| Proceeds from investments | - | 1,988 |
| Acquisitions and other investments | (165,970) | (68,640) |
| Net cash used in investing activities | (307,586) | (189,820) |
| Cash flows from financing activities | | |
| Increase (decrease) in short-term borrowings | 31,163 | (56,250) |
| Proceeds from long-term debt | 48,872 | 108,596 |
| Purchase of treasury stock | (92,156) | (113,027) |
| Cash from exercise of stock options | 23,395 | 24,420 |
| Dividends paid | (57,880) | (54,281) |
| Net cash used in financing activities | (46,606) | (90,542) |
| Effect of exchange rate changes on cash | 11,488 | (4,680) |
| Net (decrease) increase in cash | (84,610) | 38,340 |
| Cash at beginning of year | 126,229 | 87,889 |
| Cash at end of period | \$ 41,619 | \$ 126,229 |