ENGELHARD CORP
Form 10-Q
August 14, 2003

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, 2003
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 or incorporation or organization)	(I.R.S. Employer Identification No.)

101 WOOD AVENUE, ISELIN, NEW JERSEY, 08830
(Address of principal executive offices)

(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 by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).
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, 2003
$1 par value	125,242,676

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, 2003	Three Months Ended June 30, 2002	Six Months Ended June 30, 2003	Six Months Ended June 30, 2002
Net sales	$ 929,358	$ 982,314	$ 1,759,797	$ 1,984,135
Cost of sales	766,461	805,158	1,447,339	1,646,287
Gross profit	162,897	177,156	312,458	337,848
Selling, administrative and other expenses	88,400	95,800	180,569	183,411
Special charge/(credit), net	7,802	(7,862)	(11,978)	(7,862)
Operating earnings	66,695	89,218	143,867	162,299
Equity in earnings of affiliates	7,539	4,408	13,177	8,070
Loss on investments	-	(6,659)	-	(6,659)
Interest income	1,123	322	1,716	743
Interest expense	(5,876)	(7,190)	(12,026)	(14,531)
Earnings before income taxes	69,481	80,099	146,734	149,922
Income tax expense	15,447	20,024	33,764	37,480
Net earnings before cumulative effect of a change in accounting principle, net of tax	54,034	60,075	112,970	112,442
Cumulative effect of a change in accounting principle, net of tax of $1,390	-	-	(2,269)	-
Net earnings	$ 54,034	$ 60,075	$ 110,701	$ 112,442
Earnings per share - basic:				
Earnings before cumulative effect of a change in accounting principle	$ 0.43	$ 0.47	$ 0.90	$ 0.87
Cumulative effect of a change in accounting principle, net of tax	-	-	(0.02)	-
Earnings per share - basic	$ 0.43	$ 0.47	$ 0.88	$ 0.87
Earnings per share - diluted:				
Earnings before cumulative effect of a change in accounting principle	$ 0.43	$ 0.46	$ 0.89	$ 0.85
Cumulative effect of a change in accounting principle, net of tax	-	-	(0.02)	-
Earnings per share - diluted	$ 0.43	$ 0.46	$ 0.87	$ 0.85
Cash dividends paid per share	$ 0.10	$ 0.10	$ 0.20	$ 0.20

	Three Months Ended June 30,		Six Months Ended June 30,	
Average number of shares outstanding - basic	125,261	128,707	126,067	128,750
Average number of shares outstanding - diluted	127,078	131,673	127,566	131,544

See the Accompanying Notes to the Unaudited Condensed Consolidated Financial Statements

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

	June 30, 2003	December 31, 2002
Cash	$ 95,979	$ 48,246
Receivables, net	346,687	380,270
Committed metal positions	328,565	615,441
Inventories	439,407	427,162
Other current assets	88,927	94,922
Total current assets	1,299,565	1,566,041
Investments	137,413	136,804
Property, plant and equipment, net	855,347	860,475
Goodwill	272,685	272,353
Other intangible and noncurrent assets	191,426	185,041
Total assets	$ 2,756,436	$ 3,020,714
Short-term borrowings	$ 130,114	$ 348,749
Accounts payable	210,257	225,045
Hedged metal obligations	304,064	537,243
Other current liabilities	268,548	275,250
Total current liabilities	912,983	1,386,287
Long-term debt	398,969	247,805
Other noncurrent liabilities	309,637	309,455
Shareholders' equity	1,134,847	1,077,167
Total liabilities and shareholders' equity	$ 2,756,436	$ 3,020,714

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, 2003	Six Months Ended June 30, 2002
Cash flows from operating activities		
Net earnings	$ 110,701	$ 112,442
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and depletion	61,775	52,632
Amortization of intangible assets	1,649	1,515
Loss on investments	-	6,659
Equity results, net of dividends	(4,200)	(4,317)
Net change in assets and liabilities:		
Materials Services related	267,789	7,706
All other	880	(6,449)
Net cash provided by operating activities	438,594	170,188
Cash flows from investing activities		
Capital expenditures	(39,934)	(46,196)
Proceeds from investments	7,063	-
Acquisitions and other investments	-	(2,400)
Net cash used in investing activities	(32,871)	(48,596)
Cash flows from financing activities		
Proceeds from short-term borrowings	-	203,212
Repayment of short-term borrowings	(218,563)	(223,220)
Decrease in hedged metal obligations	(209,601)	(11,708)
Proceeds from issuance of long-term debt	147,842	-
Repayment of long-term debt	(184)	(153)
Purchase of treasury stock	(74,714)	(90,545)
Cash from exercise of stock options	11,011	45,335
Dividends paid	(25,280)	(25,914)

	Six Months Ended June 30,	
Net cash used in financing activities	(369,489)	(102,993)
Effect of exchange rate changes on cash	11,499	5,382
Net increase in cash	47,733	23,981
Cash at beginning of year	48,246	33,034
Cash at end of period	$ 95,979	$ 57,015

See the Accompanying Notes to the Unaudited Condensed Consolidated Financial Statements

ENGELHARD CORPORATION
BUSINESS SEGMENT INFORMATION
(Thousands)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2003	**2002**	**2003**	**2002**
Net Sales				
Environmental Technologies	$ 209,153	$ 170,564	$ 422,693	$ 335,005
Process Technologies	139,833	136,407	258,353	251,852
Appearance and Performance Technologies	175,190	170,632	334,386	323,002
Technology segments	524,176	477,603	1,015,432	909,859
Materials Services	394,485	495,564	723,442	1,056,293
All other	10,697	9,147	20,923	17,983
Total net sales	$ 929,358	$ 982,314	$ 1,759,797	$ 1,984,135
Operating Earnings				
Environmental Technologies	$ 31,489	$ 27,983	$ 56,066	$ 67,644
Process Technologies	24,571	22,972	38,091	40,041
Appearance and Performance Technologies	18,613	24,720	37,196	39,851
Technology segments	74,673	75,675	131,353	147,536
Materials Services	3,031	27,245	7,484	37,423
All other	(11,009)	(13,702)	5,030	(22,660)
Total operating earnings	66,695	89,218	143,867	162,299
Equity in earnings of affiliates	7,539	4,408	13,177	8,070
Loss on investments	-	(6,659)	-	(6,659)
Interest income	1,123	322	1,716	743

	Three Months Ended June 30,		Six Months Ended June 30,	
Interest expense	(5,876)	(7,190)	(12,026)	(14,531)
Earnings before income taxes	69,481	80,099	146,734	149,922
Income tax expense	15,447	20,024	33,764	37,480
Net earnings before cumulative effect of a change in accounting principle, net of tax	54,034	60,075	112,970	112,442
Cumulative effect of a change in accounting principle, net of tax of $1,390	-	-	(2,269)	-
Net earnings	$ 54,034	$ 60,075	$ 110,701	$ 112,442

See the Accompanying Notes to the Unaudited Condensed Consolidated Financial Statements

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 2002 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 2003, the Company recorded a charge of $7.8 million ($4.8 million after tax) related to a previously projected provision for the remaining lease cost of certain minerals-storage facilities no longer needed because of productivity initiatives. As of June 30, 2003, the Company's Appearance and Performance Technologies segment had ceased using these facilities and, accordingly, a provision for these remaining lease rentals was reported in the "Special charge/(credit), net" line in the "Condensed Consolidated Statements of Earnings."

In the first quarter of 2003, the Company recorded charges totaling $8.7 million ($5.6 million after tax) primarily related to a management consolidation and productivity initiative in the Environmental and Process Technologies segments and within the "All-Other" category. The amounts of $5.3 million ($3.5 million after tax), $2.6 million ($1.6 million after tax) and $0.8 million ($0.5 million after tax) were reported in the Environmental Technologies segment, the Process Technologies segment and the "All-Other" category, respectively. These charges are included in the "Special charge/(credit), net" line in the "Condensed Consolidated Statements of Earnings."

ENGELHARD CORPORATION BUSINESS SEGMENT INFORMATION (Thousands) (Unaudited) 6

In the Environmental Technologies segment, the charge of $5.3 million primarily relates to the closure of the segment's Coleford, UK plant ($2.8 million) and employee severance costs related to productivity initiatives ($2.5 million). The employee severance charges relate to the reduction of 96 salaried and 12 hourly employees. The Coleford plant, which supports the segment's catalyst canning operations, will be shut down in phases to be complete by October 31, 2003. As a result of closing this plant, the segment will outsource the canning operations associated with this business. The closure resulted in an impairment charge of $1.5 million to write down fixed assets and other exit-related costs of $1.3 million. As of June 30, 2003, the liability associated with this charge was $1.7 million.

In the Process Technologies segment, the charge of $2.6 million primarily relates to employee severance and the termination of an agency agreement associated with sales to the chemical-process market. The employee severance charges relate to the reduction of 13 salaried employees. Selling activities associated with the termination of this agency agreement will be covered by the segment's internal sales force. As of June 30, 2003, the liability associated with this charge was $0.7 million.

In the "All-Other" category, the charge of $0.8 million was for employee severance costs related to the reduction of six salaried employees. As of June 30, 2003, the liability associated with this charge was $0.4 million.

On October 29, 2002, a jury in the New York County Supreme Court awarded the Company $29.8 million in damages in a breach of contract action the Company had brought against Research Corporation and Research Corporation Technologies in 1998. The jury found that the defendants did not share with the Company all of the royalties to which the Company was entitled under a royalty-sharing agreement it entered into with Research Corporation in 1979. Statutory interest to the date of the verdict would have increased the amount awarded to approximately $42.2 million. On March 21, 2003, the Company entered into a settlement agreement, releasing this claim in exchange for payment of $38.0 million. Accordingly, the Company recorded a gain of $28.4 million ($17.6 million after tax) in the first quarter of 2003, net of legal fees and the portion of the settlement related to future royalties. This gain was included in the Company's "All-Other" category and in the "Special charge/(credit), net" line in the "Condensed Consolidated Statements of Earnings."

Note 3 - Accounting for Asset Retirement Obligations

The Company adopted Statement of Financial Accounting Standards (SFAS) No. 143, "Accounting for Asset Retirement Obligations," on January 1, 2003. This statement, which addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs, requires the fair value of a liability for an asset retirement obligation to be recognized in the period in which it is incurred. The liability is measured at fair value and is adjusted in subsequent periods as accretion expense is recorded. The corresponding asset retirement costs are capitalized as part of the carrying amount of the related long-lived asset and depreciated over the asset's useful life.

The Company's asset retirement obligations relate to kaolin mining operations of its Appearance and Performance Technologies segment. In order to provide kaolin-based products to the Company's customers and the Process Technologies segment, the Company engages in kaolin mining operations. The kaolin mining process includes exploration, topsoil and overburden removal, extraction of kaolin and the subsequent reclamation of mined areas. The Company has a legal obligation to provide for reclamation of mined areas under state regulations. Prior to adoption of SFAS No. 143, the Company incurred reclamation costs to comply with state regulation and expensed costs as the mined areas were reclaimed.

At January 1, 2003, the Company recognized transition amounts for existing asset retirement obligation liabilities, associated capitalizable costs and accumulated depreciation. A non-cash transition charge of $3.7 million ($2.3 million after tax or $0.02 per share on a diluted basis) was recorded on January 1, 2003 as the cumulative effect of an accounting change. Pro forma net income and diluted earnings per share as if the provisions of SFAS No. 143 had been adopted on January 1, 2002, excluding the cumulative effect of an accounting change, for the six-month periods ended June 30, 2003 and June 30, 2002 are $112.7 million and $0.88 per share and $112.1 million and $0.85 per share, respectively.

The following table represents the change in the Company's asset retirement obligation liability for the six-month period ended June 30, 2003 (in millions):

	2003
Asset retirement obligation at January 1, 2003	$ -
Liability recognized in transition	7.1
Accretion expense	0.2
Payments	(0.3)
Asset retirement obligation at June 30, 2003	$ 7.0

The pro forma amount of liability for asset retirement obligation as if the provisions of SFAS No. 143 had been applied at January 1, 2002 is $6.7 million.

Note 4 - Inventories

Inventories consist of the following (in millions):

	June 30, 2003	December 31, 2002
Raw materials	$ 109.3	$ 95.4
Work in process	52.1	77.0
Finished goods	259.7	237.4
Precious metals	18.3	17.4
Total inventories	$ 439.4	$ 427.2

The majority of the Company's physical metal is carried in the committed metal positions line on the balance sheet at fair value with the remainder carried in the inventory line at historical LIFO cost. The market value of the precious metals recorded at LIFO exceeded cost by $51.8 million and $58.3 million at June 30, 2003 and December 31, 2002, respectively.

In the normal course of business, certain customers and suppliers deposit significant quantities of precious metals with the Company under a variety of arrangements. Equivalent quantities of precious metals are returnable as product or in other forms. Metals held for the accounts of customers and suppliers are not reflected in the Company's financial statements.

Note 5 - Comprehensive Income

Comprehensive income is summarized as follows (in millions):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2003	**2002**	**2003**	**2002**
Net earnings	$ 54.0	$ 60.1	$ 110.7	$ 112.4
Other comprehensive income (loss):				
Foreign currency translation adjustment	18.9	51.3	30.3	33.8
Cash flow hedge adjustment, net of tax	-	0.8	0.1	4.0
Investment adjustment, net of tax	(0.2)	-	(0.2)	-
Comprehensive income	$ 72.7	$ 112.2	$ 140.9	$ 150.2

The foreign currency translation adjustments are not currently adjusted for income taxes as they relate to permanent investments in non-U.S. entities.

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,	
<u>(in millions, except per share data)</u>	**2003**	**2002**	**2003**	**2002**
<u>Basic EPS Computation</u>				
Net earnings applicable to common shares	$ 54.0	$ 60.1	$ 110.7	$ 112.4

	Three Months Ended June 30,		Six Months Ended June 30,	
Average number of shares outstanding - basic	125.3	128.7	126.1	128.8
Basic earnings per share	$ 0.43	$ 0.47	$ 0.88	$ 0.87
Diluted EPS Computation				
Net earnings applicable to common shares	$ 54.0	$ 60.1	$ 110.7	$ 112.4
Average number of shares outstanding - basic	125.3	128.7	126.1	128.8
Effect of dilutive stock options and other incentives	1.8	3.0	1.5	2.7
Average number of shares outstanding - diluted	127.1	131.7	127.6	131.5
Diluted earnings per share	$ 0.43	$ 0.46	$ 0.87	$ 0.85

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 designated as cash flow hedges are initially recorded in comprehensive income and are reclassified to earnings in the period the hedged item is reflected in earnings. 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.

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, 2003 and 2002, 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.

Other forward contracts entered into to hedge the exposure to foreign currency fluctuations associated with certain monetary assets and liabilities are not designated as hedging instruments for accounting purposes. Changes in the fair value of these contracts are recorded in earnings to offset the foreign exchange gains and losses arising from the effect of changes in exchange rates used to measure related monetary assets and liabilities.

ENGELHARD CORPORATION BUSINESS SEGMENT INFORMATION (Thousands) (Unaudited) 10

Commodity Contracts

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 usage of these commodities.

Interest Rate Derivatives

The Company uses interest rate derivatives that are designated as fair value hedges to help achieve its fixed and floating rate debt objectives. The Company currently has two interest rate swap agreements with a total notional value of $100 million maturing in August 2006 and three interest rate swap agreements with a total notional value of $150 million maturing in May 2013. These agreements effectively change fixed rate debt obligations into floating rate debt obligations. The total notional values and maturity dates of these agreements are equal to the face values and the maturity dates of the related debt instruments. For these fair value hedges, there was no gain or loss recognized from hedged firm commitments no longer qualifying as fair value hedges for the three and six-month periods ended June 30, 2003 and 2002.

Note 8 - Guarantees and Warranties

In the normal course of business, the Company incurs obligations with regard to contract completion and product performance. Under certain circumstances, these obligations are supported through the issuance of letters of credit. At June 30, 2003, the aggregate outstanding amount of letters of credit supporting such obligations amounted to $59.8 million, of which $43.7 million will expire in less than one year, $7.6 million will expire in two to three years, $0.2 million will expire in four to five years, and $8.3 million will expire after five years. In the opinion of management, such obligations will not significantly affect the Company's financial position or results of operations as the Company anticipates fulfilling its performance obligations.

The Company accrues for anticipated product warranty expenses on certain products. Accruals for anticipated warranty liabilities are recorded based upon a review of historical warranty claims experience. Adjustments are made to accruals as claim data and historical experience warrant. The Company's accrual is primarily comprised of warranty liabilities within the non-automotive business of the Environmental Technologies segment.

The change in the Company's product warranty reserves for the six-month period ended June 30, 2003 is as follows (in millions):

Balance at January 1, 2003	$ 11.1
Payments	(3.3)
Provision	1.3
Balance at June 30, 2003	$ 9.1

Note 9 - Goodwill and Other Intangible Assets

Identifiable intangible assets, such as patents and trademarks, are amortized using the straight-line method over their estimated useful lives. Goodwill was amortized by the straight-line method over periods up to 40 years for all acquisitions completed prior to June 30, 2001. Effective January 1, 2002, with the adoption of Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets (SFAS No. 142)," goodwill and other intangible assets that have indefinite useful lives are no longer amortized, but are tested for impairment based on the specific guidance of SFAS No. 142.

The following information relates to acquired amortizable intangible assets (in millions):

	As of June 30, 2003		As of December 31, 2002	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Acquired Amortizable Intangible Assets				
Usage rights	$ 18.9	$ 3.5	$ 17.2	$ 2.6
Supply agreements	16.6	3.9	15.4	3.1
Technology licenses	7.4	2.2	7.4	1.9
Other	3.7	1.9	3.7	1.8
Total	$ 46.6	$ 11.5	$ 43.7	$ 9.4

The increased carrying amount of acquired amortizable intangible assets is primarily due to the impact of foreign exchange.

Total accumulated amortization for goodwill and other intangible assets amounted to $78.4 million and $76.8 million at June 30, 2003 and December 31, 2002, respectively. As of June 30, 2003, the estimated aggregate amortization expense for each of the five succeeding years is as follows (in millions):

Estimated Annual Amortization Expense:	
2003	$ 3.3
2004	3.3
2005	3.3
2006	3.1
2007	3.1

The following table represents the changes in the carrying amount of goodwill for the six-month period ended June 30, 2003 (in millions):

	Environmental Technologies	Process Technologies	Appearance & Performance Technologies	All Other	Total

	Environmental Technologies	Process Technologies	Appearance & Performance Technologies	All Other	Total
Balance as of January 1, 2003	$ 13.0	$ 106.9	$ 152.0	$ 0.5	$ 272.4
Foreign currency translation adjustment	0.1	0.3	(0.1)	-	0.3
Balance as of June 30, 2003	$ 13.1	$ 107.2	$ 151.9	$ 0.5	$ 272.7

Note 10 - Committed Metal Positions and Hedged Metal Obligations

Both spot metal positions 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 on the Company's "Condensed Consolidated Balance Sheets":

Metal Positions Information (in millions):

	June 30, 2003		December 31, 2002	
	Net Position	Value	Net Position	Value
Platinum group metals	Short	$ 4.4	Long	$ 16.6
Gold	Long	1.5	Long	1.1
Silver	Long	0.2	Long	0.4
Base metals	Long	7.1	Short	2.3
Total unhedged metal positions		$ 13.2		$ 20.4

Committed metal positions may include significant advances made for the purchase of precious metals that have been delivered to the Company but for which the final purchase price has not yet been determined. As of June 30, 2003, all such contracts have been final priced and settled without any loss to the Company.

Derivative metal and foreign currency instruments are used to hedge metal positions and obligations. As of June 30, 2003, over 99% of these instruments have settlement terms of less than one year, with the remaining instruments expected to settle within three years. These derivative metal and foreign currency instruments consist of the following:

Metal Hedging Instruments (in millions):

June 30, 2003		December 31, 2002	
Buy	Sell	Buy	Sell

	June 30, 2003		December 31, 2002	
Metal forwards/futures	$ 592.1	$ 570.9	$ 1,234.5	$ 494.4
Eurodollar futures	47.2	98.0	113.0	86.0
Swaps	7.1	8.2	4.7	7.7
Options	15.7	9.9	101.7	98.7
Foreign exchange forwards/futures	-	109.1	-	93.1

Note 11 - New Accounting Pronouncements

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities" (FIN 46). FIN 46 addresses consolidation by business enterprises of variable interest entities with certain defined characteristics. This interpretation applies immediately to variable interest entities created after January 31, 2003, and to variable interest entities in which an enterprise obtains an interest after that date. It applies in the first fiscal year or interim period beginning after June 15, 2003, to variable interest entities in which an enterprise holds a variable interest that it acquired before February 1, 2003. The Company did not obtain an interest in any variable interest entities after January 31, 2003. The Company believes that the provisions of FIN 46 will not have a material impact on the Company's financial statements.

In April 2003, the FASB issued SFAS No. 149, " Amendment of Statement 133 on Derivative Instruments and Hedging Activities." This Statement amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." This Statement is effective for contracts entered into or modified after June 30, 2003, with certain exceptions, and for hedging relationships designated after June 30, 2003. The provisions of this Statement that relate to Statement 133 Implementation Issues that have been effective for fiscal quarters that began prior to June 15, 2003, should continue to be applied in accordance with their respective dates. This statement did not have any impact on the accompanying financial statements.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." This Statement establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability or an asset in some circumstances. This Statement is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. The Company does not expect this Statement to have a material impact on the Company's financial statements.

ENGELHARD CORPORATION BUSINESS SEGMENT INFORMATION (Thousands) (Unaudited) 14

Note 12 - Stock Option and Bonus Plans

The Company has several long-term incentive compensation plans that allow for the granting of stock options to employees. Had compensation cost for the Company'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," the Company's net earnings and earnings per share would have been as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
Pro Forma Information (in millions, except per share data)	**2003**	**2002**	**2003**	**2002**
Net earnings - as reported	$ 54.0	$ 60.1	$ 110.7	