ENGELHARD CORP
Form PREC14A
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the
Securities Exchange Act of 1934

Filed by the Registrant x
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Check the appropriate box:

x Preliminary Proxy Statement
o Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
o Definitive Proxy Statement
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o Soliciting Material Pursuant to § 240.14a-12

ENGELHARD CORPORATION
(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than Registrant)

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101 WOOD AVENUE, ISELIN, NEW JERSEY 08830

BARRY W. PERRY
Chairman and
Chief Executive Officer

May [ ], 2006

Dear Shareholder:

You are cordially invited to attend the 2006 Annual Meeting of Shareholders of Engelhard Corporation (the "Company"), which will be held at 10:00 a.m., Eastern Daylight Savings Time, on June 2, 2006 at the North Maple Inn at Basking Ridge, 300 North Maple Avenue, Basking Ridge, NJ 07920. The enclosed Notice and Proxy Statement contain information about matters to be considered at the Annual Meeting.

This Annual Meeting is of particular importance. As you know, BASF, through a wholly owned subsidiary, made an unsolicited tender offer to acquire all of the outstanding shares of Engelhard common stock for $37 per share in cash and subsequently increased its offer to $38 per share. Your Board's unanimous view is that BASF's $38 offer is inadequate and not in the best interests of Engelhard shareholders in that it does not adequately recognize the Company's current performance or future prospects.

The Recapitalization Plan

Following BASF's unsolicited offer, the Board, with the assistance of its independent advisors, reviewed a broad range of strategic alternatives to maximize shareholder value. As a result of this review, the Board has unanimously approved a recapitalization plan comprised of a $45 per share cash self-tender offer for up to 26 million shares (approximately 20% of the Company's outstanding shares including shares underlying exercisable options), continued execution of the Company's business strategy and incremental cost savings the Company expects will deliver $15 million annually beginning in 2007 (collectively, the "Recapitalization Plan"). The Company commenced the $45 per share self-tender offer on May 5, 2006. The Offer will expire on June 5, 2006 unless earlier terminated or extended pursuant to its terms.

The Board strongly believes that the Recapitalization Plan represents the best value-creation alternative and is in the best interests of Engelhard shareholders for a number of reasons, including:

- *Superior Value Versus BASF's $38 Per Share Offer* **-** Our Board believes that its $45 per share self-tender offer; the expected $15 million in incremental annual cost savings; and the Company's continued ability to capitalize on its attractive growth opportunities and business strategy will deliver greater value to its shareholders than BASF's $38 per share offer.

- *Accretion to Earnings and Earnings Growth* **-** The purchase of shares pursuant to the Recapitalization Plan represents an attractive investment for the Company, and the Recapitalization Plan is expected to be accretive to earnings per share (EPS) by approximately six cents in 2007 and accretive to EPS growth.

- *Expected Strong Price-to-Earnings Multiple* **-** BASF launched its hostile offer when Engelhard's stock was trading at a forward price-to-earnings (P/E) multiple that was meaningfully lower than the historical relationship that prevailed for several years to that of key industry peers (Johnson Matthey and Umicore). The forward P/E multiple of the

Company immediately prior to the unsolicited offer from BASF was 29.1% below that of Johnson Matthey. This compares to an average discount to Johnson Matthey of 10.7%, 1.6% and 8.5% in 2005, 2004 and 2003, respectively, and an average discount of 6.9% for the overall period of 2003 through and including 2005. Immediately prior to the unsolicited offer from BASF, the Company's forward P/E was at a discount of 11.3% below that of Umicore, which compares to an average premium to Umicore of 6.8%, 30.7% and 20.3% in 2005, 2004 and 2003, respectively, and an average premium of 19.3% for the overall period of 2003 through and including 2005. In addition, since the time of BASF's hostile offer in early January, 2006, forward P/E multiples for Engelhard's industry peers overall (Johnson Matthey, Umicore and eight U.S. publicly traded mid to large capitalization specialty chemical companies) have generally increased. An analysis of 2007 P/E multiples for these industry peers of the Company group shows that current 2007 P/E multiples are on average 1.5x or 11.5% higher, with P/E multiples for 9 of 10 of these peers having increased. While this increase could be related to other factors, such as increased acquisition speculation in the industry in general following BASF's offer for the Company, we believe that to be unlikely given the number and diversity of the companies in this peer group. We believe that absent the BASF offer, our forward P/E multiple should reflect a relationship to key industry peers more in line with historical levels, and should benefit from (a) the strength of Engelhard's earnings performance in recent quarters, (b) the expected robust and sustained earnings growth for the years ahead, and (c) the general rise in industry multiples since BASF commenced its hostile offer.

- *Meaningful Liquidity at an Attractive Price of $45 Per Share* **-** The Recapitalization Plan provides shareholders with a substantial liquidity opportunity for some of their shares at the attractive price of $45 per share, while preserving shareholders' ability to realize the Company's outstanding future growth potential through appreciation of the market price of the stock or a future sale of the Company.

· *Continuing Investment-Grade Credit Profile* **-** The Company's financing of the $45 per share self-tender offer should not interfere with our ability to maintain the financial capability needed to execute our strategic business plan and realize our growth opportunities. Implementation of the Recapitalization Plan is expected to result in continuance of investment-grade credit ratings for the Company.

The terms of the Recapitalization Plan are described in the enclosed Proxy Statement under the caption "Summary of the Recapitalization Plan," and a description of the reasons for the Recapitalization Plan is contained under the caption "Reasons for the Recapitalization Plan."

Expansion of Engelhard's Board

BASF—the very same party which has made the $38 per share offer which your Board has determined is inadequate—has previously stated that if we do not decide to sell the Company "expeditiously" or if BASF on its own"concludes that [our] exploration of strategic alternatives is not being conducted in the best interests of the Company's shareholders," then BASF intends to solicit written consents from our shareholders to amend our bylaws to increase the size of the Board and fill the newly-created vacancies with hand-picked, BASF nominees. BASF has the ability to continue threatening, and to make, such a consent solicitation regardless of whether their director nominees lose the vote at the Annual Meeting. Furthermore, BASF can continue its consent solicitation for as long as it chooses—there is no date by which the solicitation must end.

In order to be able to successfully execute on our strategic business plan, which we expect to deliver significant growth and value to you, our shareholders, we cannot afford the distraction resulting from either a lengthy consent solicitation for majority control of the Board or the threat that one could occur at any time. Our Board and management, as well as other important resources of the Company, would be diverted to focusing on a consent solicitation battle of potentially indefinite duration throughout a critical period for the execution of our strategic business plan. To avoid this potential obstacle to realizing the anticipated benefits of this part of the Recapitalization Plan, the Board will increase the number of Board members at the Annual Meeting from six to nine members and ask you vote to fill these additional director seats with the Board's nominees.

Accordingly, the Board recommends that at the Annual Meeting you elect the five Board nominees described in the enclosed Proxy Statement, namely the three directors nominated to fill the newly-created vacancies (who will be spread among our three Classes of directors) and the two incumbent Class I Directors whose terms expire at the Annual Meeting. As a result, the Board will be giving you, our shareholders, the ability to elect a majority of the newly-enlarged Board (five directors out of nine) at the Annual Meeting without the need for, and distraction resulting from, the threatened BASF consent solicitation.

BASF has nominated five individuals for election to the Board at the Annual Meeting, namely the two individuals BASF has previously nominated and three additional individuals whom BASF nominated on May 1, 2006 after we announced the Board size would be increased at the Annual Meeting. If BASF is successful, its nominees will control the Engelhard Board, and we would expect them to enable BASF's inadequate $38 per share offer.

If Engelhard's five director nominees are elected, the effect will be, among other things, to enable the Company to pursue our strategic business plan for two years without the distraction of having to defend against a consent solicitation by BASF that seeks or threatens to change a majority of the board to support its inadequate hostile tender offer. We strongly believe this outcome is important for successful implementation of the Recapitalization Plan, including its strategic business plan, and, consequently, the Company's ability to create value for shareholders.

The increase in the size of the Board affords both the Company and BASF a fair opportunity to present their cases to you and for you to ultimately decide which path will serve your best interests. If you believe, as we do, that the Recapitalization Plan will provide a greater value-creation opportunity than BASF's offer, you should support all five of the Board nominees. We believe that the choice is easy and that the path forward to greater value is clear.

The Board also notes that, as it has previously said, it is and has been committed to maximizing the value of Engelhard for the benefit of our shareholders. This is not a fight for independence. It is a fight for our shareholders to get fair value for their shares. The Board urges you to send BASF a message by voting for Engelhard's Board nominees: "BASF, we will not sell to you at an inadequate price."

Recommendation to Shareholders

Accordingly, the Board unanimously recommends that you vote "FOR" the five Engelhard director nominees. We also strongly advise you not to split your votes between the Board's nominees and BASF's nominees. The attendant distraction and leadership uncertainty that would naturally result from having a minority of BASF nominees elected would, in the Board's view, gravely undermine the execution of our strategic business plan and the expected values to be derived therefrom. Therefore, we urge you NOT to vote for <u>any</u> nominees of BASF.

How to Vote

Whether or not you plan to attend, we urge you to complete, sign and return the enclosed BLUE proxy card or to vote over the Internet or by telephone so that your shares will be represented and voted at the Annual Meeting. If a brokerage firm, bank or other institution holds your shares of common stock for you, only they can vote your shares and then only upon receipt of your instructions on how they should vote your shares. It is important that you contact the person responsible for your account promptly and give them your instructions on how to vote your shares. If you plan to attend the Annual Meeting, please check the box provided on the BLUE proxy card and an admission ticket will be sent to you. Only shareholders and their proxies will be permitted to attend the Annual Meeting.

The Board urges you NOT to sign or return any proxy card sent to you by BASF. Only your latest dated, signed proxy card will be counted, and any BASF proxy card you sign for any reason could invalidate previous proxy cards sent by you to support the Engelhard Board. You are legally entitled to change your vote. If you have previously signed a BASF proxy card, the Board urges you to sign, date and promptly mail the enclosed proxy card, which will revoke any earlier dated proxy card that you signed. The best way for you to support the Board is to vote “FOR” all five of the Engelhard director nominees.

On behalf of everyone at Engelhard, we thank you for your continued support. We remain committed to acting in your best interests. If you have any questions with respect to voting, please call our proxy solicitor, MacKenzie Partners, Inc. (“MacKenzie”) at 105 Madison Avenue, New York, NY 10016, (800) 322-2885 (Toll-Free) or at (212) 929-5500 (Collect).

Sincerely yours,

ENGELHARD CORPORATION
101 WOOD AVENUE
ISELIN, NEW JERSEY 08830

NOTICE OF THE 2006 ANNUAL MEETING OF SHAREHOLDERS

To our Shareholders: May [ ], 2006

The Annual Meeting of Shareholders of Engelhard Corporation, a Delaware corporation, will be held on June 2 at 10:00 a.m., Eastern Daylight Savings Time, at the North Maple Inn at Basking Ridge, 300 North Maple Avenue, Basking Ridge, NJ 07920, for the following purposes:

(1) To elect five directors, including the two incumbent Class I Directors whose terms expire at the Annual Meeting and the three nominees to fill three vacancies which the Board will create at the Annual Meeting by increasing its size from six to nine members;

(2) To ratify the appointment of Ernst & Young LLP as our independent registered public accounting firm; and

(3) To transact such other business as may properly come before the meeting.

The record date for the determination of the shareholders entitled to vote at the meeting or at any adjournment thereof is close of business on May 5, 2006.

The Board unanimously recommends that you vote “FOR” the five Engelhard director nominees and urges you NOT to vote for any nominees of BASF. The Board also recommends that you disregard and/or NOT execute any proxy card other than our BLUE proxy card.

A list of shareholders entitled to vote at the Annual Meeting will be open to the examination of any shareholder, for any purpose germane to the meeting, at our offices located at 101 Wood Avenue, Iselin, New Jersey, during ordinary business hours for ten days prior to the meeting, and at the meeting.

By Order of the Board of Directors

Arthur A. Dornbusch, II
Vice President, General Counsel and Secretary

SHAREHOLDERS ARE URGED TO MARK, SIGN AND RETURN PROMPTLY THE ACCOMPANYING BLUE PROXY IN THE ENCLOSED RETURN ENVELOPE OR TO VOTE OVER THE INTERNET OR BY TELEPHONE

ENGELHARD CORPORATION
101 WOOD AVENUE
ISELIN, NEW JERSEY 08830

PROXY STATEMENT FOR THE 2006
ANNUAL MEETING OF SHAREHOLDERS

ABOUT THE MEETING

Why am I receiving these materials?

The Board of Directors of Engelhard Corporation (sometimes referred to as "Engelhard" or "we" or "our") is providing these proxy materials for you in connection with our Annual Meeting of Shareholders (the "Meeting"), which will take place on June 2, 2006. You are invited to attend the Annual Meeting and are requested to vote on the proposals described in this proxy statement.

What items of business will be voted on at the meeting?

1. The election of five directors, including the two incumbent Class I Directors whose terms expire at the Annual Meeting and the three nominees to fill three vacancies which the Board will create at the Annual Meeting by increasing its size from six to nine members; and

2. The ratification of the appointment of Ernst & Young LLP as our independent registered public accounting firm.

We will also consider any other business that is properly brought before the Meeting.

Why will the Board expand the size of the Board at the Meeting?

BASF—the very same party which has made the $38 per share offer which your Board has determined is inadequate—has previously stated that if we do not decide to sell the Company "expeditiously" or if BASF on its own"concludes that [our] exploration of strategic alternatives is not being conducted in the best interests of the Company's shareholders," then BASF intends to solicit written consents from our shareholders to amend our bylaws to increase the size of the Board and fill the newly-created vacancies with hand-picked, BASF nominees. BASF has the ability to continue threatening, and to make, such a consent solicitation regardless of whether their director nominees lose the vote at the Annual Meeting. Furthermore, BASF can continue its consent solicitation for as long as it chooses—there is no date by which the solicitation must end.

In order to be able to successfully execute on our strategic business plan, which we expect to deliver significant growth and value to you, our shareholders, we cannot afford the distraction resulting from either a lengthy consent solicitation for majority control of the Board or the threat that one could occur at any time. Our Board and management, as well as other important resources of the Company, would be diverted to focusing on a consent solicitation battle of potentially indefinite duration throughout a critical period for the execution of our strategic business plan. To avoid this potential obstacle to realizing the anticipated benefits of this part of the Recapitalization Plan, the Board will increase the number of Board members at the Annual Meeting from six to nine members and ask you vote to fill these additional director seats with the Board's nominees.

What are the Board's recommendations?

Unless you give other instructions on your proxy card, the persons named as proxy holders on the proxy card will vote in accordance with the recommendations of the Board of Directors. The Board's recommendation is set forth below together with the description of each item in this proxy statement. In summary, the Board recommends a vote:

· FOR the election of the nominated slate of directors, including the two incumbent Class I Directors whose terms expire at the Annual Meeting and the three nominees to fill three vacancies which the Board will create at the Annual Meeting by increasing its size from six to nine members (see page 10); and

· FOR ratification of the appointment of Ernst & Young LLP as our independent registered public accounting firm (see page 36).

With respect to any other matter that properly comes before the meeting, the proxy holders will vote as recommended by the Board or, if no recommendation is given, in their own discretion.

***Who is* entitled to vote?**

Holders of Common Stock as of the close of business on May 5, 2006 will be entitled to vote. On such date there were outstanding and entitled to vote 124,011,840 shares of Common Stock of Engelhard, each of which is entitled to one vote with respect to each matter to be voted on at the Meeting.

What constitutes a quorum?

The presence at the Annual Meeting in person or by proxy of the holders of a majority of the outstanding shares of Common Stock entitled to vote shall constitute a quorum for the transaction of business. Proxies marked as abstaining on any matter to be acted upon by shareholders will be treated as present at the meeting for purposes of determining a quorum. If you hold your shares in "street name" through a broker or other nominee, shares represented by "broker non-votes" will be counted in determining whether there is a quorum.

How do I vote?

If you complete and properly sign the accompanying BLUE proxy card and return it to Engelhard, it will be voted as you direct. If you return the proxy card but make no specifications, your shares will be voted in accordance with the recommendations of the Board, as set forth below. If you are a registered shareholder and attend the meeting, you may deliver your completed BLUE proxy card in person. "Street name" shareholders who wish to vote at the meeting will need to obtain a proxy form from the institution that holds their shares.

If you are a record holder of Common Stock (that is, if you hold Common Stock in your own name in Engelhard's stock records maintained by our transfer agent, Mellon Investor Services LLC), you may vote through the Internet or by using a toll-free telephone number by following the instructions included with your proxy card. If you are not a record holder of Common Stock (that is, if you hold Common Stock in "street name" through a broker or other nominee), you may vote your shares by following the instructions included with your proxy card, which you need to obtain from the financial institution that holds your shares. Please be aware that if you vote over the Internet, you may incur costs such as telephone and Internet access charges for which you will be responsible. The Internet and

telephone voting facilities for shareholders of record will close at 11:59 p.m. Eastern Daylight Savings Time on June 1, 2006.

Can I change my vote after I return my proxy card or after I vote electronically or

by telephone?

Yes. After you have submitted a traditional proxy card, you may change your vote at any time before the proxy is exercised by submitting either a notice of revocation or a duly executed proxy bearing a later date. If you previously submitted your proxy through the Internet or by telephone, you may revoke that proxy simply by voting again prior to the time at which such facilities close, by following the same procedures used in casting your prior vote; in that event, the later submitted vote will be recorded and the earlier vote revoked.

What vote is required to approve each item?

Each item to be voted on at the Annual Meeting requires the affirmative vote of the holders of a majority of the votes cast with respect to such item. A properly executed proxy marked "ABSTAIN" and a broker non-vote with respect to any such matter will not be treated as a vote cast, although it will be counted for purposes of determining whether there is a quorum.

Who will bear the expense of soliciting proxies?

The cost of soliciting proxies in the form enclosed will be borne by Engelhard. In addition to the solicitation by mail, proxies may be solicited personally or by telephone by our employees. We have also engaged MacKenzie to assist in such solicitation. Engelhard may reimburse brokers holding Common Stock in their names or in the names of their nominees for their expenses in sending proxy material to the beneficial owners of such Common Stock. For additional information regarding the solicitation of proxies, please see Appendix B to this Proxy Statement.

ENGELHARD'S POSITION REGARDING BASF's OFFER

On January 9, 2006, BASF, through its wholly-owned subsidiary, Iron Acquisition Corporation, made an unsolicited tender offer to acquire all of the outstanding shares of Engelhard common stock for $37 per share in cash. The purpose of the BASF offer is for BASF to acquire control of, and the entire equity interest in, the Company. BASF has stated that it currently intends, as promptly as practicable following consummation of the BASF offer, to have the Company consummate a merger or other similar business combination with Iron Acquisition Corporation or another direct or indirect subsidiary of BASF in connection with its offer. On January 20, 2006, the Board unanimously determined that BASF's $37 per share offer was inadequate and not in the best interests of the Company's shareholders.

Following the Board's determination as to the inadequacy of BASF's $37 per share offer, the Board, with the assistance of its independent advisors, explored a wide range of strategic alternatives to maximize shareholder value. As part of this process, the Recapitalization Plan was developed. Also, in connection with this exploration of alternatives, the Company entered into confidentiality agreements and held meetings with a number of potential bidders who were interested in all or parts of the Company. No competitive, third-party transaction, however, materialized.

In response to the Company's request for BASF to increase its offer following BASF's access to non-public information, BASF, on April 19, 2006, made a proposal to acquire the Company for $38 per share in cash. Following receipt of this $38 per share proposal, the Board held a number of meetings to review BASF's $38 proposal and review the results of its exploration of strategic alternatives, including the Recapitalization Plan that was developed. Following this review, at its meeting on April 25, 2006, the Board unanimously determined that BASF's $38 per share proposal was inadequate and not in the best interests of the Company's shareholders. Subsequently, on May 1, 2006, BASF increased its offer to $38 per share and extended its offer to June 5, 2006.

Also at the April 25, 2006 meeting, the Board unanimously determined that the Recapitalization Plan represents the best value-creation alternative for and is in the best interests of the Company's shareholders. Accordingly, the Board unanimously approved the Recapitalization Plan. The Recapitalization Plan was announced on April 26, 2006.

Additional information on our position on BASF's offer can be found in the Company's Schedule 14D-9 filed with the Securities and Exchange Commission (the "SEC") on January 23, 2006, as amended, which is available at the SEC's website at www.sec.gov. These documents can be obtained without charge in print to any shareholder who requests them from our Corporate Secretary.

SUMMARY OF THE RECAPITALIZATION PLAN

As a result of the review of strategic alternatives to maximize shareholder value described above, the Board has unanimously approved the Recapitalization Plan comprised of:

· A $45 per share cash self-tender offer for up to 26 million shares (approximately 20% of the Company's outstanding shares including shares underlying exercisable options); and

· Continued execution of the Company's business strategy and incremental cost savings the Company expects will deliver $15 million annually beginning in 2007.

The Tender Offer. The maximum number of shares eligible to be repurchased in the $45 per share self-tender offer is 26 million shares (approximately 20% of the Company's outstanding shares including shares underlying exercisable options). The self-tender offer will be financed by third party borrowings. The Company has a commitment, subject to customary conditions, for a bridge credit facility from JPMorgan and Merrill Lynch to initially fund the self-tender offer. Permanent financing is expected

to comprise a mix of hybrid securities and floating- and fixed-rate debt. The self-tender offer was commenced on May 5, 2006 and will expire on June 5, 2006 unless earlier terminated or extended.

Continued Execution of Business Plan. The Recapitalization Plan will allow the Company to continue to execute its strategic business plan. We believe that our recent strong results, including the earnings momentum inherent in our results for the fourth quarter of 2005 and the extremely strong results for the first quarter of 2006, are only the beginning of the fruits which this strategic business plan will bear. The Recapitalization Plan will afford shareholders the opportunity to continue to reap the benefits of our strategic plan.

Cost Savings. The incremental cost savings to be undertaken as part of the Recapitalization Plan is expected to deliver $15 million in annual cost savings beginning in 2007. The Company expects to incur a charge or charges of approximately $20 million in the second half of 2006 in connection with the incremental cost savings.

Additional information on our $45 self-tender offer can be found in the Company's "Schedule TO" filed on May 5, 2006 with the Securities and Exchange Commission (the "SEC"), which includes the Offer to Purchase, and a presentation made to investors regarding the Recapitalization Plan, which is available on our website at www.engelhard.com. These documents can be obtained without charge in print to any shareholder who requests them from our Corporate Secretary.

REASONS FOR THE RECAPITALIZATION PLAN

Our Board, with the help of our financial advisor, Merrill Lynch & Co., has reviewed the opportunities and challenges ahead. On the basis of this analysis and the outcome of our strategic evaluation process, our Board has determined that the Recapitalization Plan is the best alternative for delivering value to our shareholders for a number of reasons, including the following:

· *Superior Value Versus BASF's $38 Per Share Offer* **-** Our board believes that its $45 per share self-tender offer; the expected $15 million in incremental annual cost savings; and the Company's continued ability to capitalize on its attractive growth opportunities and business strategy will deliver greater value to its shareholders than BASF's $38 per share offer.

· *Accretion to Earnings and Earnings Growth* **-** The purchase of shares pursuant to the Recapitalization Plan represents an attractive investment for the Company, and the Recapitalization Plan is expected to be accretive to EPS by approximately six cents in 2007 and accretive to EPS growth.

· *Expected Strong Price-to-Earnings Multiple* **-** BASF launched its hostile offer when Engelhard's stock was trading at a forward price-to-earnings (P/E) multiple that was meaningfully lower than the historical relationship that prevailed for several years to that of key industry peers (Johnson Matthey and Umicore). The forward P/E multiple of the Company immediately prior to the unsolicited offer from BASF was 29.1% below that of Johnson Matthey. This compares to an average discount to Johnson Matthey of 10.7%, 1.6% and 8.5% in 2005, 2004 and 2003, respectively, and an average discount of 6.9% for the overall period of 2003 through and including 2005. Immediately prior to the unsolicited offer from BASF, the Company's forward P/E was at a discount of 11.3% to Umicore, which compares to an average premium to Umicore of 6.8%, 30.7% and 20.3% in 2005, 2004 and 2003, respectively, and an average premium of 19.3% for the overall period of 2003 through and including 2005. In addition, since the time of BASF’s hostile offer in early January, 2006, forward P/E multiples for Engelhard’s industry peers overall (Johnson Matthey, Umicore and eight U.S. publicly traded mid to large capitalization specialty chemical companies) have generally increased. An analysis of 2007 P/E multiples for these industry peers of the Company shows that current 2007 P/E multiples are on average 1.5x or 11.5% higher, with 9 of 10 having increased. While this increase could be related to increased acquisition speculation in the industry in general following BASF's offer for the Company, we believe that to be unlikely given the number and diversity of the companies in this group. We believe that absent the BASF offer, our forward P/E multiple should reflect a relationship to key industry peers more in line with historical levels, and should benefit from (a) the strength of Engelhard’s earnings performance in recent quarters, (b) the expected robust and sustained earnings growth for the years ahead, and (c) the general rise in industry multiples since BASF commenced its hostile offer.

- *Meaningful Liquidity at an Attractive Price of $45 Per Share* **-** The Recapitalization Plan provides shareholders with a substantial liquidity opportunity for some of their shares at the attractive price of $45 per share, while preserving shareholders’ ability to realize the Company’s outstanding future growth potential through appreciation of the market price of the stock or a future sale of the Company.

- *Continuing Investment-Grade Credit Profile* **-** The Company’s financing of the $45 per share self-tender offer should not interfere with our ability to maintain the financial capability needed to execute our strategic business plan and realize our growth opportunities.